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National Endowment for the Arts

PERFORMANCE & ACCOUNTABILITY REPORT FISCAL YEAR 2012

Submitted to the Congress,
the Office of Management and Budget,
the Department of the Treasury, and
the Government Accountability Office
November 2012

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NATIONAL ENDOWMENT FOR THE ARTS

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Performance & Accountability Report for Fiscal Year 2012 November 2012

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Fiscal Year 2012 Performance and Accountability Report ~ A Message from the Chairman ~

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2012 Performance and Accountability Report*. This report summarizes the Agency's performance and accomplishments – programmatically, financially, and operationally – during the past year.

Mission and Organizational Overview

The National Endowment for the Arts (NEA) is a public agency dedicated to advancing artistic excellence, creativity, and innovation for the benefit of individuals and communities. Established by Congress in 1965 as an independent agency of the Federal government, the NEA extends its work through partnerships with State arts agencies, local leaders, other Federal agencies, and the philanthropic sector, reaching rural, suburban, and metropolitan areas in all 50 States, the District of Columbia, and special jurisdictions, as well as military installations – both here at home and overseas. The NEA is committed to providing the American people with access to the best of their artistic legacy and does so through the following four goals:

- *The creation of art that meets the highest standards of excellence.*
- *To engage the public with diverse and excellent art.*
- *To promote public knowledge and understanding about the contributions of the arts.*
- *To enable the NEA mission through organizational excellence.*

We carry out our activities primarily with funds appropriated by the Congress to the NEA, but also with funds donated from the private sector and transferred from other Federal agencies. We pursue our goals principally through grantmaking, but also through our leadership, convening, research, communication and dissemination, and partnership activities. All of these are discussed elsewhere in this report.

Performance Goals, Objectives, and Results

This Performance and Accountability Report demonstrates the successes achieved by the National Endowment for the Arts through the following strategies:

- Serving as a national voice and leader for excellence and innovation in the arts.
- Awarding thousands of competitive grants and supporting leadership projects every year to encourage artistic excellence; broaden access to the arts; and advance arts education, creativity, and innovation.

- Ensuring complete geographic coverage of our programs.
- Providing focused leadership and careful management to improve Agency performance and productivity.

A wide array of Agency programs and initiatives are providing Americans with opportunities to experience the best of the arts. These include:

- A national research agenda to investigate the characteristics and contributions of arts and culture in American lives and communities.
- *Our Town*, an initiative built on the premise – confirmed through experience and empirical research – that the arts are essential to the lives of our people and the livability of our communities.
- Collaborations with other Federal agencies (e.g., the Departments of Commerce, Education, Agriculture, Defense, and Interior, and the National Science Foundation) in recognition of the ability of the arts to help them achieve their goals.
- Other program leadership initiatives such as *Blue Star Museums*; *The Big Read*; *Poetry Out Loud: National Recitation Contest*; *Shakespeare for a New Generation*; and the *Mayors' Institute for City Design*.
- Outreach through programs such as *Challenge America*; grant information workshops held in communities throughout the Nation (and now, occasionally, through online media); an online newsletter; our user-friendly (and soon to be redesigned) Web site; and our latest efforts to improve communication through webinars, webcasting, and social media such as blogs, Twitter, and Facebook.
- Efficiency improvements obtained through expanded use of technology. For example, this year we began implementing across all programs (after a successful pilot in 2011) the use of the new NEA GrantsOnline™ system, which allows application reviewers to have access to more application material in advance of panel meetings than in the past, and to score and comment on applications online, improving the efficiency and productivity of application review.

Looking Forward

Upon my arrival at the NEA in 2009, I established a guiding principle that has shaped my work at the Agency. This principle can be summed up in two words: “Art works.” These two words have multiple, synergistic meanings:

1. “Art works” is a noun. It is the books, crafts, dances, designs, drawings, films, installations, music, musicals, paintings, plays, performances, poetry, textiles, and sculptures that are the creation of artists.

2. “Art works” is a verb. Art works on and within people to change and inspire them; it addresses the need people have to create, to imagine, to aspire to something more.
3. “Art works” is a declarative sentence. Arts jobs are real jobs that are part of the real economy. Arts workers pay taxes, and the arts contribute to economic growth, neighborhood revitalization, and the livability of American towns and cities.

Since arriving, I have traveled across the Nation to learn and highlight the ways that art works in neighborhoods and towns across America.

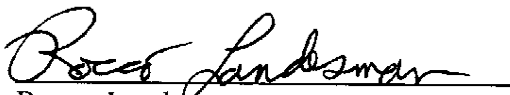
In July, I announced the second round of *Our Town* funding, 80 awards totaling \$5 million in grants, reaching 44 States and the District of Columbia. Forty-one of these 80 grants went to communities with populations of less than 50,000, and five grants went to communities with less than 1,000 residents.

The Arts Endowment has now invested \$11.5 million in *Our Town* projects in all 50 States and DC, supporting creative placemaking projects that help transform communities into lively, beautiful, and sustainable places with the arts at their core. All *Our Town* grant awards have been made to partnerships that consisted of a minimum of a not-for-profit organization and a local government entity, working together to strengthen the arts while shaping the social, physical, and economic characters of their neighborhoods, towns, cities, and regions.

Through our core grantmaking and our ground-breaking initiatives, partnerships and leadership, we are working to ensure a future where arts are at the center of American life, and the lives of individuals and communities are substantially improved.

Data Reliability

The financial and performance data contained in this report are, to the best of our knowledge, complete and reliable. I am very pleased to report that during the course of our FY 2012 audit, the auditors identified no material weaknesses. Thus, the Agency has received its tenth consecutive unqualified opinion. Going forward, and in the ongoing course of implementing our FY 2012-2016 Strategic Plan, continued emphasis will be placed on data reliability.


Rocco Landesman
Chairman

November 8, 2012

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Fiscal Year 2012 Performance and Accountability Report ~ Management's Discussion and Analysis ~

Mission and Organizational Structure

The National Endowment for the Arts is the Federal agency dedicated to advancing artistic excellence, creativity, and innovation for the benefit of individuals and communities. The Arts Endowment's successes are achieved through the following strategies.

- Serving as a national voice and leader for excellence in the arts.
- Awarding thousands of competitive grants and supporting leadership projects every year to encourage artistic excellence; broaden access to, engagement with, and understanding of the arts; advance arts education and life-long learning in the arts; and promote the livability of communities.
- Ensuring complete geographic coverage of our programs.
- Providing focused leadership and careful management to improve Agency performance and productivity.

The Arts Endowment supports excellent art with broad public reach in multiple disciplines across all 50 States, the District of Columbia, and special jurisdictions, reaching rural, suburban, and metropolitan areas, as well as military installations. We are committed to providing the American people with access to the best of their artistic legacy.

An independent Federal agency, the Arts Endowment was established by Congress in 1965 and is lead by a Chairman – appointed by the President and confirmed by the United States Senate – and advised by the National Council on the Arts. Up to eighteen private citizens are appointed by the President and confirmed by the Senate; six ex officio members are Members of Congress appointed by Senate and House leadership. Currently, the Council has fifteen confirmed members.

The Arts Endowment is structured around several major programmatic and administrative Divisions headed by two Deputy Chairmen, a Chief Information Officer (CIO), and several other office heads – all of whom report to a Senior Deputy Chairman, the Agency's Chief Operating Officer. The Senior Deputy Chairman reports to the Chairman, who also has a support staff and several office directors reporting directly to him. The major program Division, Programs and Partnerships, is chiefly responsible for handling the review of grant applications. An organizational chart can be found at the end of this section. In FY 2012, the Agency operated with a staffing level of approximately 158 full-time equivalents.

Arts Endowment Status

Critical to the Agency's success is our successful attention to thoughtful leadership and careful management; the following provides evidence.

1. Improved Grants Management

Interagency Efforts. The key development in this area in FY 2012 was the launch of our joint development with the National Endowment for the Humanities of a new Web-based grants management system (eGMS) that will provide significant new capabilities and efficiencies in the management of our grant application, award, and monitoring processes. This past year, the President's Office of Management and Budget (OMB) established the interagency Council on Financial Assistance Reform (COFAR) as a replacement for the Grants Policy Council and the Grants Executive Board. The Arts Endowment's Chief Information Officer and Grants & Contracts Officer both actively participate in the COFAR's outreach forums.

Recovery Act. As a result of our close monitoring and careful guidance, we have had 100% reporting compliance from our 701 Recovery Act grantees. All awards have been fully disbursed.

Other Internal Efforts. We continue to develop tools that enable Agency staff and application review panelists to work more easily with electronic applications, making application processing more efficient and improving grant management. We successfully concluded our pilot of a new electronic application review system (NEA GrantsOnline™, or NEA-GO) this year; based on that success, we are expanding the use of this system across all of our programs. Starting in 2012, funding recommendations are presented to the National Council on the Arts electronically; review materials are now accessible through a secure Web site. Also, in response to our FY 2012-2016 Strategic Plan, we developed new grantee application and reporting forms that are now helping us collect focused outcome-based performance data.

Improved Grantee Compliance. Our efforts to help grantees improve their accountability and understanding of Federal grants include: financial management and compliance evaluations and limited scope audits of grantees conducted by the Agency's Office of Inspector General; regular revisions of the Agency's Terms and Conditions for Grants and Cooperative Agreements to ensure clarity and currency of guidance; and increasing grantees' electronic access to information, particularly through the Agency's Web site (e.g., Grant-At-A-Glance, where grantees can access information about their current and past grants to help them manage their awards, and a downloadable and fillable Section 504 self-assessment workbook designed to assist award recipients in evaluating the current state of accessibility of their programs and activities to disabled visitors and employees). In FY 2012, we instituted electronic submission and review of organizational grantee final reports. In addition, the Grants & Contracts Office continues to provide technical assistance in all areas of grants compliance, including through expanded use of online tools and webinars.

2. Effective Outreach

Grants Workshops. There is great demand for funding from the Arts Endowment; as a result, the grant process is extremely competitive. The Agency is committed to broad public and geographic outreach; offering grants workshops, often hosted by Members of Congress, the Arts Endowment provides public service and important information to small and mid-size nonprofit organizations throughout the country. By providing general technical assistance to potential applicants and grantees at community, State, and national workshops and conferences, the Arts Endowment ensures that organizations serving underserved areas have knowledge of available funding opportunities. In FY 2012, nearly 2,000 people in 19 States attended 35 grant workshops. These efforts have contributed to the fact that since FY 2005, more than 1,850 organizations – from all 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands – have received grants from the Arts Endowment for the first time.

Leadership Initiatives. Planning for and effective delivery of the Agency's leadership initiatives requires extensive interaction with arts organizations, school systems, and underserved communities throughout the Nation.

International Efforts. The Arts Endowment, through its international activities, raises awareness among other countries and cultures about the exemplary offerings of American artists, and exposes American audiences to works being created abroad. The Agency will continue efforts to strengthen cultural ties and promote the exchange of artistic resources between the United States and its international partners.

3. Strategic Management of Human Capital

We have established human capital (HC) strategies that enable us to carry out the Agency's Strategic Plan. We manage our HC programs consistent with applicable internal controls and merit-based principles, and we build our budgets and programs consistent with our available HC resources. We conduct assessments on an ongoing basis to ensure that our staffing level and competency mix are sufficient to operate effectively and achieve our mission. As a result, we undertook a modest restructuring in FY 2012. It is also worth noting that the Agency's long-serving Deputy Chairman for Management and Budget retired late in FY 2012; we are actively seeking to fill that position in FY 2013.

We sustain a high-performing workforce as evidenced by our capacity to manage our demanding application and grant workloads without commensurate increases in resources. Training is critical to this effort, particularly as employees retire and new staff arrive; we make available annual leadership training to improve and enhance performance, and to serve as a key element of succession planning.

We were pleased that 62% of the Arts Endowment's employees responded to the 2012 Federal Employee Viewpoint Survey, compared with just 46% government-wide; we believe this reflects the high engagement of our work force. In fact, 98% of NEA

employees said that when needed, they are willing to put in the extra effort to get a job done, and 90% said that they are constantly looking for ways to do their job better. Notably, given that we introduced new strategic goals in 2012, 90% of employees said they know how their work relates to the Agency's goals and priorities.

Through the President's SAVE Award contest – a contest for Federal employees to come up with ideas to save taxpayer dollars and make the government perform more effectively and efficiently – the Arts Endowment in 2011 received a recommendation to transition to an automated time and attendance system. Subsequently, we entered into an interagency agreement with the National Finance Center, our payroll service provider, to use webTA, their Web-based time and attendance system. Full implementation of the system was completed during FY 2012.

4. Expanded E-Gov

As noted in previous years, the National Endowment for the Arts has been an active partner in Grants.gov from its inception; Fiscal Year 2012 was the fifth consecutive year for which electronic application via Grants.gov was required of all applicants, both organizations and individuals.

The National Endowment for the Arts has worked continuously with applicants to heighten their awareness and acceptance of Grants.gov; encouraging them to register with Grants.gov; and assisting their transition to using Grants.gov – relying upon customized instructions, workshops, and technical assistance. We continue to provide information and guidance in light of ongoing changes related to DUNS number and CCR registration (now migrated to SAM – the System for Award Management) for grant applicants and grantees. As noted above, we are engaged in an ongoing effort to increase the use of technology in our application review process, notably through the launch of NEA-GO, which allows applicants to submit their application work samples (mostly multimedia materials) electronically.

In line with the government-wide Grants Management Line of Business (GMLoB) initiative, we received approval from OMB to address our need for a new grants management system with one developed and maintained by the National Endowment for the Humanities (NEH). We are now working with NEH in a strategic partnership to jointly develop and implement a new cloud-based grants management system (eGMS), expected to go fully live sometime in 2014.

5. Improved Financial Management

With the conversion of our legacy financial system to the U.S. Department of Transportation's (DOT) Oracle-based fully-compliant financial system (Delphi) several years ago, we continue to experience significant improvements in reliability and timeliness of financial information. We also continue to participate in the Delphi users' group to ensure that Agency needs are considered in the development of system enhancements and upgrades, particularly in anticipation of DOT's eventual upgrade to the Federalized Version of Oracle 12i.

6. Integration of Budget and Performance

We prepare our budget requests as performance budgets, with performance data integrated throughout. This integration ensures that Agency goals, programs, and budget categories are aligned with and mirror one another. As mentioned previously, we implemented a new Strategic Plan in FY 2012, which included the introduction of new goals and performance measures, which are being incorporated into our performance budgets and annual performance reports.

Performance Goal Highlights: Trends and Actions

The National Endowment for the Arts serves the American people through the following four goals:

- *The creation of art that meets the highest standards of excellence.*
- *To engage the public with diverse and excellent art.*
- *To promote public knowledge and understanding about the contributions of the arts.*
- *To enable the NEA mission through organizational excellence.*

For each of the above performance goals, we have identified several outcomes that we intend to achieve, and we established performance indicators for each outcome – all of which tie directly back to our mission statement. Since FY 2012 has just ended, however, we cannot yet report on final accomplishments related to our grantmaking during that year. As we regularly explain in our annual performance reports, actual performance data from each fiscal year are not available until final reports on funded projects have been received. We have established a threshold of 90 percent of such reports as a level that allows us to make reliable assessments of actual performance. This threshold is usually reached within two years after the end of the fiscal year in which the awards were made (e.g., by the end of FY 2012, we had received approximately 91% of the FY 2010 final reports).

In each year’s performance plan, we provide projections of what will be accomplished as a result of our funding; with each year’s performance report, we provide updated estimates, based on grantees’ anticipated and actual accomplishments. For example, with FY 2012 funding, we now estimate that 50 million individuals will directly benefit from projects whose primary purpose is to increase Americans’ engagement with art. Other estimates of Agency-wide accomplishments from the 2,200 grants and cooperative agreements awarded that year include:

- More than 75 million individuals attending “live” arts events through Agency programs (exclusive of television and radio broadcast audiences), including 18 million children and youth.

- A combined audience of hundreds of millions benefiting from Agency programs that support national and regional broadcast performances on radio and television, both single and recurring programs.
- 100 percent of Congressional districts receiving at least one direct grant.
- Nearly 2,800 communities participating in Agency-sponsored, discretionary projects – many benefiting from projects such as touring and outreach that take place in communities beyond that of the grant recipient.
- Approximately 4,800 communities participating in projects funded by a combination of Federal funds and State Arts Agency and Regional Arts Organization funds.
- 25,000 community organizations partnering with grantees on Arts Endowment-supported projects.
- Arts Endowment awards generating \$600 million or more in matching support; in our direct grant-making categories alone, this translates into a ratio of matching to Federal funds that far exceeds the required one-to-one match.
- Arts Endowment awards helping to make possible nearly 40,000 concerts, readings, and performances; and 4,000 exhibitions.
- Internationally, 70 U.S. professional arts organizations and more than 1,200 artists providing performances, exhibits, and other arts activities in 45 countries.

The grantees' final reports – supplemented by selected post-award reviews conducted by the Office of Research and Analysis – provide the information that allows us to report what we actually achieved across the country with our programmatic activities. We have found the actual results to be quite consistent with our projections, and periodic reviews of the grantee reporting process have confirmed the accuracy and relevance of our performance data. Thus, we believe that the performance data we receive (which are reported in our annual performance reports) indicate that our goals for these programs are being met, and the observations we receive from the panelists who convene to review grant applications and discuss program policies confirm that our programs are effective. We can also confidently assert the efficiency of our programs as we have continued to do more with level or reduced resources.

Improper Payments Reporting

The Arts Endowment has four major fund categories that comprise its “program inventory” (per OMB Circular A-136): Administrative; Program Support; Direct Grantmaking; and Partnership. As a result of new direct grantmaking programmatic goals established through our FY 2012-2016 strategic plan, we performed an improper payment risk analysis. We reviewed all refunds to ensure that funds were not held for long periods before returning, and we sampled small, medium, and large dollar pay requests to determine whether

appropriate amounts were being requested at appropriate times. None of these “programs” qualifies as risk-susceptible based on OMB guidance thresholds. Previous risk assessments for the National Endowment for the Arts have also indicated an insignificant risk for improper payments; the percentage of improper payments made has been below the 2.5% threshold (at or below 0.2%), and all payments have been recovered. In FY 2012, the only improper payment was a pay request that was misread, resulting in an underpayment, which was corrected when the grantee notified us; we responded by modifying our process to ensure clarity of pay requests. Due to our strong internal controls and recent risk assessment and sample results, we believe that the NEA has an insignificant risk of improper payments for the 2012 fiscal year.

Analysis of Financial Statements

The Arts Endowment’s principal financial statements have been prepared to report the financial position and results of operations of the Agency, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Arts Endowment in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The Arts Endowment receives an annual appropriation of “no-year” funds from Congress, and has been granted authority to receive donations and invest in interest-bearing accounts. Accounts are maintained for restricted as well as unrestricted funding, and the same guidelines are used to account for both appropriated and non-appropriated funds. The Arts Endowment’s property, plant, and equipment are recorded at cost and are depreciated according to a written asset capitalization policy.

In general, the Arts Endowment faced reductions in all major financial areas in FY 2012. Although each area may have unique circumstances, there are some factors that have a similar impact on every financial measure:

- NEA's FY 2012 net appropriation was about \$8.7 million less than that of FY 2011. Appropriations are the primary source of financial resources for the Agency, so the financial position of the Endowment generally trends with the amount of appropriations received each year.
- The Endowment received about \$1 million less in reimbursable agreement authority in FY 2012 compared to FY 2011. As with appropriations, the financial resources of the agency fluctuate in response to changes in reimbursable authority received.

Explanations for significant changes to specific financial items on the following "Table of Key Measures" between FY 2012 and FY 2011 are provided below:

*National Endowment for the Arts – FY 2012 Performance & Accountability Report
Management's Discussion and Analysis*

- Fund Balance with Treasury - In FY 2012, NEA received about \$8.7 million less than in FY 2011. This accounts for the majority of the reduction this year.
- Investments - Funds eligible for investment by the Endowment were not invested as of September 30, 2012. The amount of potential interest earned is insignificant and would not support the administrative resources required to manage funds under investment.
- Accounts Receivable - The decrease represents scheduled repayments. As of September 30, 2012, only one receivable from the public remains.
- Property, Plant and Equipment - The Endowment upgraded its telephone system during FY 2012. As the amount of the purchase exceeds our current capitalization threshold, the purchase price less depreciation is reflected on the balance sheet.
- Other Assets - This line item consists entirely of advances to other parties. The reduction in advances during FY 2012 is due primarily to an expenditure of a single advance that was recorded in FY 2011. See Note 6 for additional details.
- Accounts Payable - This is due to a reduction of advances from other government agencies.
- Accrued Liabilities - The ratio of grant obligations to outlays increased during FY 2012, resulting in a larger accrued liability compared to FY 2011.
- Other liabilities - Reductions in accounts payable invoices, accrued unfunded leave, and accrued funded payroll make up the majority of the decrease. See Note 8 for additional details.
- Net Position - The overall net position of the Endowment decreased by over \$12 million. Most of this reduction is due to the reduced net appropriation received during FY 2012, a reduction in reimbursable authority received from other Federal agencies, and the increase in accrued liabilities.

In addition, provided below are explanations of Changes in Obligations and Outlays in FY 2012 Compared to FY 2011:

- Obligations - Three items factor into the 10.9% reduction in obligations. First, there was a reduction in the net appropriation in FY 2012 compared to FY 2011. Second, there was a reduction in reimbursable authority received from other agencies compared to FY 2011. Third, there was a reduction in the dollar amount of grants awarded during 2012.
- Outlays - A smaller appropriation and fewer grant obligations in FY 2012 account for the reduction of outlays during FY 2012.

Significant qualitative issues relating to financial management. During FY 2012, the Endowment began operating under a new strategic plan. Because of this, the Agency encountered some challenges related to allocating indirect costs between strategic goals under the previous strategic plan and the new strategic plan. Those challenges are now resolved; the Agency will continue to allocate indirect costs over the next few years to the strategic goals (both former and current) until the former strategic program goals are fully expended.

Overall, the financial condition of the Agency is strong. The Agency received an unqualified audit opinion on its FY 2012 financial statements as presented herein. This is the Agency's tenth consecutive year receiving a clean audit opinion. As mentioned above, the Agency's programs and operations are funded primarily through appropriated funding as provided by Congress and approved by the President. Therefore, year to year changes in the Agency's financial condition are highly dependent on these appropriated funding levels.

National Endowment for the Arts					
Table of Key Measures					
				Increase/(Decrease)	
Amounts in Dollars		Current FY	Prior FY	\$	%
Costs ¹					
Total Financing Sources		\$ 160,910,099	\$ 164,417,182	\$ (3,507,083)	-2.1%
Less: Net Cost		159,921,054	164,693,210	(4,772,156)	-2.9%
Net Change of Cumulative Results of Operations		\$ 989,045	\$ (276,028)	\$ 1,265,073	458.3%
Net Position ²					
Assets:					
Fund Balance with Treasury		\$ 148,628,656	\$ 156,703,287	\$ (8,074,631)	-5.2%
Investments		-	842,086	(842,086)	-100.0%
Accounts Receivable		31,250	36,775	(5,525)	-15.0%
Property, Plant, and Equipment		195,881	-	195,881	100.0%
Other		452,867	762,993	(310,126)	-40.6%
Total Assets		\$ 149,308,654	\$ 158,345,141	\$ (9,036,487)	-5.7%
Liabilities:					
Accounts Payable		\$ 1,025,925	\$ 1,360,228	\$ (334,303)	-24.6%
Accrued Liabilities		48,740,008	45,035,758	3,704,250	8.2%
Other		2,354,341	2,719,375	(365,034)	-13.4%
Total Liabilities		\$ 52,120,274	\$ 49,115,361	\$ 3,004,913	6.1%
Net Position (Assets-Liabilities)		\$ 97,188,380	\$ 109,229,780	\$(12,041,400)	-11.0%

¹ Source : Statement of Net Cost and Statement of Changes in Net Position

² Source: Balance Sheet

Systems, Controls, and Legal Compliance

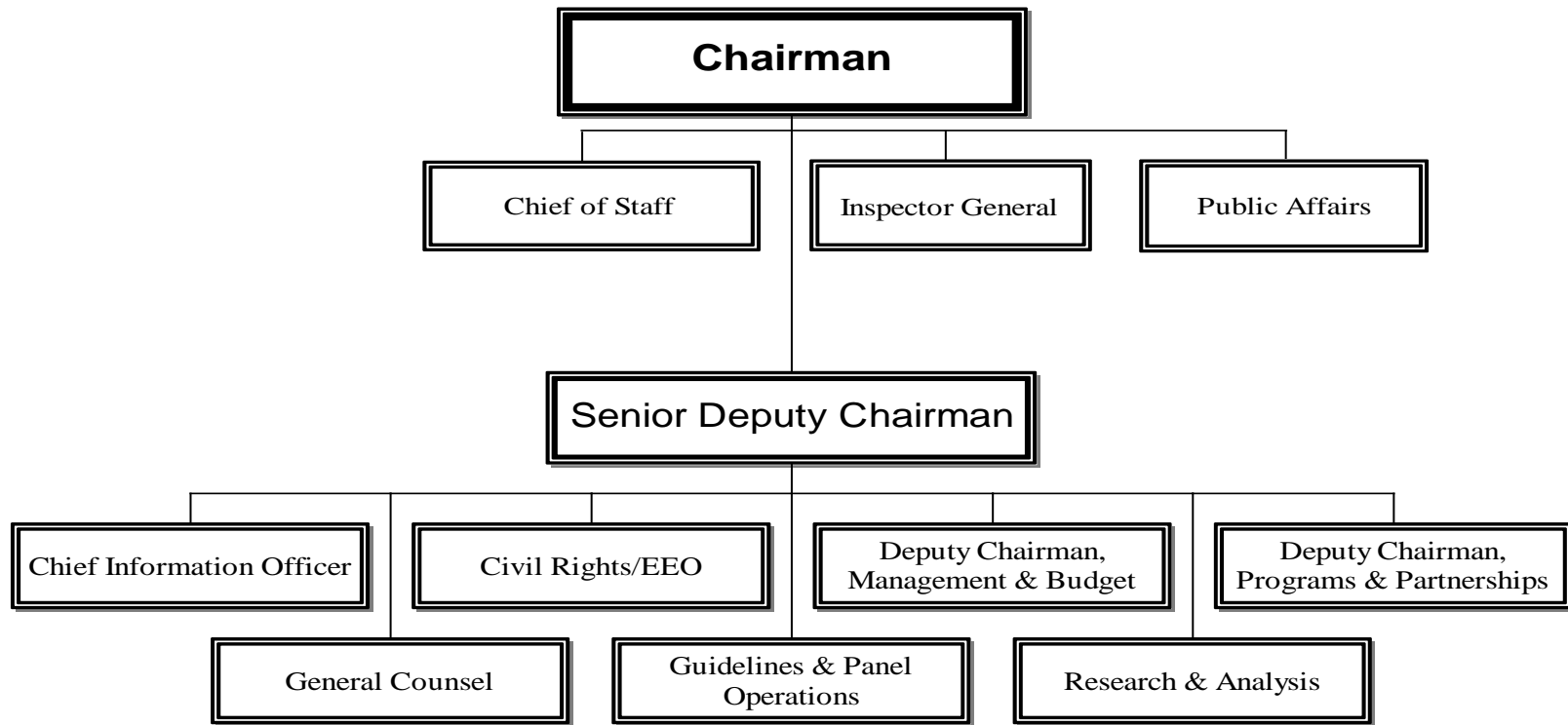
The National Endowment for the Arts is cognizant of the importance of establishing and maintaining adequate controls over its programs and administrative functions.

Management continues to evaluate and, where necessary, modify existing controls – and establish new ones as appropriate – to ensure that we are able to provide reasonable assurance that we are accountable for our resources. We also recognize the importance of using technology to enhance effectiveness and efficiency, as well as to ensure an adequate degree of internal control and compliance with applicable laws and regulations.

Future Effects of Existing Events and Conditions

In previous years, we reported on the challenges presented by our reliance on an outdated grants management system (GMS); we have since taken decisive action to address this. With the approval of OMB, we began the process of establishing a strategic partnership with the National Endowment for the Humanities, through which we will migrate our outdated GMS to their eGMS – a modern, flexible, cloud-based grants management system that is being developed collaboratively and will be maintained by the NEH. We expect to see major improvements in our internal grants management and panel management processes as a result of this partnership; our grant applicants, grantees, and panelists will also find that doing business with the NEA will be easier and more flexible. Development work began in FY 2012 and is currently on schedule and within budget; we expect to begin using the eGMS sometime in 2014.

National Endowment for the Arts – FY 2012 Performance & Accountability Report
Management's Discussion and Analysis
Organization Chart



NEA Strategic Plan FY 2012-2016
Summary of Programmatic Goals and Outcomes

<u>Goals</u>		
Creation of Art	Engagement	Promoting
The creation of art that meets the highest standards of excellence.	To engage the public with diverse and excellent art.	To promote public knowledge and understanding about the contributions of the arts.
<u>Outcomes*</u>		
1. The portfolio of American art is expanded.	1. Americans throughout the Nation experience art.	1. Evidence of the value and impact of the arts is expanded and promoted.
	2. Americans of all ages acquire knowledge or skills in the arts.	2. Partnerships increase the domestic and international impact of the arts.
	3. American communities are strengthened through the arts.	
<p>* The outcomes refer to the intended results of Agency-funded grant projects and activities with arts organizations, arts service organizations, educational institutions, units of government, individuals, and other public and private sector organizations involved in arts activities.</p>		



Fiscal Year 2012 Performance and Accountability Report ~ Management Assurances ~

Overall Internal Control

The National Endowment for the Arts' management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Arts Endowment conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Arts Endowment can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2012, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Internal Control over Financial Reporting


The National Endowment for the Arts conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circulars A-123, *Management's Responsibility for Internal Control*, and A-136, *Financial Reporting Requirements*. Based on the results of this evaluation and that of our independent auditors, the National Endowment for the Arts can provide reasonable assurance that internal control over financial reporting as of September 30, 2012, was operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Table 1.**Summary of Financial Statement Audit**

Audit Opinion		Unqualified			
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	0	0

Table 2.**Summary of Management Assurances**

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
Total Material Weaknesses	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Systems conform					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
Total non-conformances	0	0	0	0	0	0
Compliance with Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
Overall Substantial Compliance	Yes			Yes		
1. System Requirements				Yes		
2. Accounting Standards				Yes		
3. USSGL at Transaction Level				Yes		



Rocco Landesman

Chairman

November 8, 2012



Fiscal Year 2012 Performance and Accountability Report ~ Performance and Impact ~

In this section, we provide documentation of the impact of the Agency's programs, projects, initiatives, and activities. We present this information in five groupings.

Agency-Wide Program Accomplishments – Cumulative information on the impact of Agency activities, projects, and initiatives.

Achieving Agency Performance Goals – Information on the impact of Agency activities, projects, and initiatives by Agency goal, including specific project examples.

Leadership Initiatives – Information on the impact of the Agency's leadership initiatives, projects that cut across all Agency goals.

Research and Analysis – Summary information on Agency research activities intended to inform the American public, opinion makers, and the arts field.

GPRA Performance Reports – Quantitative reports for fiscal years 2007 – 2011.

Agency-Wide Program Accomplishments

The Agency's funding of programs, projects, and initiatives resulted in the development and delivery of broad services to the American public. Based on activity to date and information from Agency awardees for FY 2012, we can report and anticipate the following:

- **Approximately 2,200 awards were made in communities in all 50 States and six special jurisdictions.**
- **More than 75 million individuals attend 'live' arts events through Agency programs (exclusive of television and radio broadcast audiences) including 18 million children and youth.**
- **A combined audience of hundreds of millions will benefit from Agency programs that support national and regional broadcast performances on radio and television, both single and recurring programs.**
- **100 percent of Congressional districts received at least one direct grant.**
- **Nearly 2,800 communities will participate in Agency-sponsored, discretionary projects – many benefiting from projects such as touring and outreach that take place in communities beyond that of the grant recipient.**
- **Approximately 4,800 communities will participate in projects funded by a combination of Federal funds and State Arts Agency and Regional Arts Organization funds.**
- **On Arts Endowment-supported projects, grantees will partner with more than 25,000 organizations including schools; colleges and universities; religious organizations; non-profit and for-profit organizations; foundations; and local, State and Federal agencies.**
- **Direct Arts Endowment awards will generate roughly \$600 million in matching support; this translates into a ratio of matching to Federal funds of greater than 9:1, far exceeding the required 1:1 match.**
- **Arts Endowment awards will help make possible nearly 40,000 concerts, readings, and performances; and 4,000 exhibitions (including visual and media arts).**
- **Internationally, 70 U.S. professional arts organizations and more than 1,200 artists will provide performances, exhibits, and other arts activities in 45 countries.**

Achieving Agency Performance Goals

The achievement of the Agency's programmatic accomplishments currently (beginning in FY 2012) occurs through three programmatic goals: To Create Art that Meets the Highest Standards of Excellence; To Engage the Public with Diverse and Excellent Art; To Promote Public Knowledge and Understanding about the Contributions of the Arts.

To Create Art that Meets the Highest Standards of Excellence

This goal represents the Agency's firm commitment to expanding the portfolio of American art. By awarding grants in the category of original art-making, the NEA is harnessing the ingenuity of American artists; reasserting its position as a Federal leader in creativity and innovation; and contributing to a dynamic portfolio that can be enjoyed by present and future generations. The following table highlights accomplishments made possible through this funding. (Significant changes to the Agency's FY 2012 goal structure preclude comparative reporting across previous fiscal years. Required reports on FY 2007 through FY 2011, which reflect the goal structures of applicable Performance Plans, are contained in the GPRA Performance Reports section.)

To Create Art that Meets the Highest Standards of Excellence **Selected Performance Results – FY 2012**

Fiscal Year	Artists Compensated	Children/Youth Benefitting	Concerts/ Performances	Artworks Created
2012 Projected	8 k - 10 k	1.0 m - 1.5m	2.5 k - 3.5 k	.4 k - .5 k

[Numbers are rounded. k=thousand; m=million.]

The cumulative accomplishments reflected in this table result from the 412 direct grants and cooperative agreements awarded under this goal. Below is a list of representative project activities supported by grants awarded to ensure that the portfolio of American art is expanded. Not all of the activities are confined to this strategic outcome.

- Commissions, development, and production of new work.
- Design competitions and design or planning projects for new arts or cultural spaces or landscapes.
- Artist workshops or residencies where the primary purpose is to create new art.
- Opportunities for writers and translators to create or refine their work. ¹

¹ The Arts Endowment recognizes promising and mid-career writers, poets, and translators with Literature Fellowships that enable them to set aside time for writing and research. Literature Fellowships are the Agency's most competitive funding category; in FY 2012, only 40 of the 1,179 Creative Writing: Prose applicants (just 3.4%) were supported. While Creative Writing Fellowship recipients are not required to produce a particular product, the underlying purpose of the Fellowships is to encourage and support creative output; thus, it is appropriate to include them under the *Creation of Art* goal. As one of the Nation's most significant supporters of literary translation, the Arts Endowment provides Literature Fellowships for Translation projects, as well as support to nonprofit presses for the publication of translations of literary work into English. These efforts give American readers opportunities to read significant contemporary international literature that originated in languages other than English.

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- Media arts productions.
- Projects that employ innovative forms of art-making and design.

Grants for Arts Projects: *To Create Art that Meets the Highest Standards of Excellence* examples from FY 2012:

In **Nevada City, California**, the **Squaw Valley Community of Writers** received an FY 2012 matching grant of \$10,000 to support the *Screenwriting Program*, a week-long workshop that focuses on the essence of storytelling and teaches participants how to "show" rather than "tell" their stories. During the project, professional staff will provide 25 students with an introduction to the language and grammar of film to help them write clear, readable, and intelligent scripts. Since the program began in 1980, more than 600 emerging screenwriters have participated.

In **Ada, Oklahoma**, **East Central University** was awarded a \$12,000 FY 2012 Challenge America matching grant to support a two-week residency for Cheyenne Arapaho artist Edgar Heap-of-Birds. The artist will work with University art and Native American studies students to research hidden histories that build upon themes of identity and sovereignty. The research will culminate in the construction and installation of 15-20 street signs that will communicate identified hidden history facts. More than 3,000 individuals are expected to participate and view the work.

In addition to the direct grant examples above, some of the funds awarded through our Partnership Agreements with the States & Regions are also expected to support the expansion of America's portfolio of art.

To Engage the Public with Diverse and Excellent Art

Grants for *Engaging the Public with Diverse and Excellent Art* were awarded for projects expected to advance at least one of the three outcomes described below, relying upon various program strategies. Underlying all of the outcomes and program strategies are a number of supporting strategies; they are:

- 1) Ensure complete coverage of NEA programs by supporting outreach efforts through the *Challenge America* grant program to support communities without reliable access to the arts and arts education, by maintaining the Agency's commitment to award at least one direct grant in each Congressional district – a goal we have achieved each year since FY 2005.
- 2) Enhance geographic data collection and reporting capabilities to ensure that grants for the purpose of providing engagement with artistic excellence are being funded across the United States.

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- 3) Continue to ensure that NEA grant application reviewers have the qualifications and expertise necessary to identify projects that can engage the public with diverse and excellent art.
- 4) Continue to maintain an unbiased, transparent application review process that provides panel members with adequate information to determine which projects meet the highest standards of excellence.
- 5) Continue to develop and support leadership initiatives that provide opportunities for the Arts Endowment to address special artistic or cultural needs – whether field- or geography-based.
- 6) Work effectively and efficiently with the State Arts Agencies and Regional Arts Organizations to develop strategies that can help us fulfill this goal.

Outcome #1: Americans Throughout the Nation Experience Art

The Arts Endowment has a responsibility to help preserve America’s great artistic traditions in all their diversity and bring that work to diverse populations so that it may stimulate new discoveries in people from multiple backgrounds. This emphasis on art “delivery” systems is entirely in keeping with a new generation of arts audiences who, faced with many competing time-use options, nevertheless appear to value personal participation over passivity. The following table highlights accomplishments made possible through this funding. (Significant changes to the Agency's FY 2012 goal structure preclude comparative reporting across previous fiscal years. Required reports on FY 2007 through FY 2011, which reflect the goal structures of applicable Performance Plans, are contained in the GPRA Performance Reports section.)

Americans Throughout the Nation Experience Art
Selected Performance Results – FY 2012

Fiscal Year	Total Non-Broadcast Audience	Children/Youth Benefitting	Concerts/Performances	Exhibitions
2012 Projected	48 m - 50 m	6 m - 7 m	12 k - 15 k	1 k - 1.5 k

[Numbers are rounded. k=thousand; m=million.]

The cumulative accomplishments reflected in this table result from the 1,121 direct grants and cooperative agreements awarded under this outcome. Below is a list of representative project activities supported by grants awarded to ensure that Americans throughout the Nation experience art. Not all of the activities are confined to this strategic outcome.

- Presenting exhibits, performances, concerts, and readings.
- Touring and outreach activities.
- Art fairs and festivals.
- Restaging of repertory and master works of historical significance.

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- Documentation, preservation, and conservation of artwork.
- Public programs that raise awareness of cultural heritage.
- Film screenings.
- Broadcasts on television or radio; video games; mobile apps; live streaming, audio- and video-on-demand, podcasts, MP3 files, or other digital applications.
- Design charrettes.
- Publication, production, and promotion of digital, audio, mobile, or online publications; books; magazines; catalogues; and searchable information databases.
- Services to artists and arts organizations.
- Projects that extend the arts to underserved populations – those whose opportunities to experience the arts are limited by geography, ethnicity, economics, or disability.
- Projects that employ innovative forms of art and design delivery.

Here are some recent examples of grants awarded through our new *Engaging the Public with Diverse and Excellent Art* goal for projects that will provide opportunities for Americans throughout the Nation to experience art.

In **Anchorage, Alaska**, the **Sitka Summer Music Festival, Inc.** was awarded a \$10,000 FY 2012 Challenge America matching grant to support concert tours of chamber music in cities and rural towns of Alaska, including Anchorage, Gustavus, Kenai, Sitka, and Talkeetna. The festival brings professional musicians from around the world to Alaska each year to rehearse and perform in small ensembles of two to eight performers in as many as 27 concerts. Covering more than 586,000 square miles, the project will serve approximately 7,400 people, including 1,000 children – many from small communities (some accessible only by boat or plane) of 130 to 3,000 residents.

In **Berkeley, California**, the **Regents of the University of California at Berkeley** (on behalf of **Cal Performances**) received a \$75,000 FY 2012 matching grant to support performances of "*Einstein on the Beach*" by composer Philip Glass and librettist Robert Wilson. A two-week residency with the composer and librettist, as well as numerous education and community programs, will bring this significant work to the stage. This seminal opera was premiered in 1976, presented at no fewer than eight organizations that year, remounted again in 1984, 1988, and 1992, but has not been performed in nearly 20 years.

In **Baltimore, Maryland**, the **Baltimore Choral Arts Society, Inc.** received a \$10,000 FY 2012 matching grant to support "*The Land of the Free*," performances and educational activities in celebration of the 200th anniversary of the events leading to the creation of *The Star-Spangled Banner*. Plans include a public performance featuring composer Ysaye Barnwell's *Fortune's Bones: The*

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Manumission Requiem, as well as two "Community Sings" events and a post-concert talk, both led by the composer. An estimated audience of 3,000 is expected to take part in the project.

In **Freeport, Maine**, the **Figures of Speech Theatre** received an FY 2012 matching grant of \$10,000 to support the *Rural Maine Initiative*, a program that brings performances, workshops, and extended artist residencies to schools and underserved communities. The tour will feature original productions of *Cupid & Psyche*, featuring bunraku-inspired (traditional Japanese puppet theater) puppets, actors and dance; an adaptation of Hans Christian Andersen's *Nightingale*; and *Jester Kings of Java*, a shadow puppet performance that uses authentic Javanese shadow puppets. The project will reach an estimated 6,500 children and youth in underserved communities throughout rural Maine.

In **St. Louis, Missouri**, the **Saint Louis Symphony Orchestra** was awarded a \$12,500 FY 2012 matching grant to support rural orchestral residencies with performances and educational workshops. Full orchestral performances, conducted by music director David Robertson and resident conductor Ward Stare, will be preceded by teacher workshops engaging as many as 20 teachers from rural schools. The project is expected to reach approximately 2,000 people, including 200 children, in the two rural Missouri communities of Mexico and Jefferson City, both more than 120 miles west of St. Louis.

In **Potts Camp, Mississippi**, the **North Mississippi Hill Country Picnic, Inc.** was awarded a \$10,000 FY 2012 Challenge America Fast-Track matching grant to support the North Mississippi Hill Country Picnic, a blues festival featuring artists such as Kenny Brown, Jimbo Mathus, Little Jo Ayers, and the Reverend John Wilkins. On the morning of the festival, the professional artists will conduct a blues clinic for local musicians.

In **Billings, Montana**, the **Billings Family YMCA, Inc.** (aka **YMCA Writer's Voice**) received a \$15,000 FY 2012 matching grant to support *Native Voices*, a unique series of public readings by contemporary Native American writers. Authors representing Crow, Cheyenne, Kootenai, Salish, Sioux, Assiniboine, Cree, Cherokee, and Aleut cultures will present work in public, private, and tribal colleges throughout eastern Montana. The project is expected to reach more than 3,000 people.

In **Missoula, Montana**, **MCT, Inc.** (aka **Missoula Children's Theatre**) received a \$55,000 FY 2012 Challenge America matching grant to support MCT's national performing arts residency tour in underserved communities and on U. S. military bases. During an estimated 1,200 residencies, directors will cast as many as 65 local youth alongside touring actors in original musicals, and rehearse and perform within a week's time. MCT will serve at least 64,000 youth cast members, more than 173,000 workshop participants, and nearly 500,000 audience members in all 50 States.

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In Lincoln, Nebraska, the University of Nebraska at Lincoln (on behalf of the **Lied Center for the Performing Arts**) received a \$20,000 FY 2012 matching grant to support the Lied Center's *"Arts Across Nebraska"* program, which will introduce Nebraskans of all ages to modern dance. Repertory Dance Theatre, based in Salt Lake City, will perform its multimedia retrospective *"Time Capsule: A Century of Dance,"* which features works by choreographers such as Isadora Duncan, Martha Graham, Doris Humphrey, Jose Limon, and Merce Cunningham. The project will include public performances, student matinees, in-school workshops, and other outreach activities, to reach an estimated 5,775 people.

In Omaha, Nebraska, the Bemis Center for Contemporary Arts was awarded a \$25,000 FY 2012 Challenge America matching grant to support artist residencies in which artists will work in underserved and at-risk communities in consortium with Heartland Family Service. In a new way for artist communities to engage the public with art and in partnership with Heartland Family Service, 14 artists from a variety of disciplines will participate in the residencies. The project will place artists with one of eleven social service programs to provide two-way engagement benefiting both the artists and program participants, engaging approximately 900 people.

The City of Mobridge, South Dakota, was awarded a \$10,000 FY 2012 matching grant to support the conservation and restoration of a mural by Native American artist Oscar Howe (1915-83). Employed by the Works Progress Administration in 1942, the mural in the Scherr Howe Auditorium depicts scenes of Native American life and life on the Missouri River. Cleaning, repairs, and stabilization will be performed by the Upper Midwest Conservation Association. Once the restoration is completed, the mural is expected to be seen by approximately 5,500 people each year.

In Rapid City, South Dakota, First Peoples Fund was awarded a \$30,000 FY 2012 Challenge America matching grant to support *Engaging in the Power of Native Art*, fellowship programs to promote Native American artists. The project will offer support to Native American artists through three programs: *Cultural Capital*, in which Natives receive training to research and document ancestral artifacts held in local and national museums; *Artists in Business Leadership*, which teaches marketing and business skills to mid-career Native Artists; and *Community Spirit Awards* which recognize artists who are sustaining tribes' culture, language, spiritual ceremonies, songs, and dances. An anticipated 22 artists will be served by the project.

In Nashville, Tennessee, the Nashville Shakespeare Festival received a \$10,000 FY 2012 matching grant to support the 25th annual free outdoor *Shakespeare in the Park* production of *Much Ado About Nothing*, directed by artistic director Denice Hicks. The production will provide numerous opportunities to developing artists including student internships, 50 hours of intensive theater training, and will cast a diverse group of 12-14 high school and college students from across

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the Middle Tennessee region in supporting roles. The production will reach an estimated audience of more than 15,000.

In **Burlington, Vermont, the Vermont Symphony Orchestra Association, Inc.** was awarded a \$12,500 FY 2012 matching grant to support the *Made in Vermont Music Festival Tour*, consisting of performances and the commissioning and performance of a work by Vermont composer David Feurzeig in underserved rural communities. The composer and orchestra musicians will engage area high school and college students and members of each community in outreach activities such as workshops and public lectures, potentially reaching more than 3,200 children and adults, with an additional Vermont Public Radio broadcast audience of 8,000 listeners.

In **Evanston, Wyoming, Young Musicians, Inc.** was awarded a \$10,000 FY 2012 Challenge America Fast-Track matching grant to support the *Music, Arts & Technology Camp*. In addition to leading classes for youth and adults, professional camp staff will perform a concert for the community. Proposed artists include saxophonist Michael Giles, violinist Jeremy Starr, bassoonist Michele Hustedt, and tubist Joe Jensen.

In addition to the direct grant examples cited above, here is one example of a partnership activity that supports the outcome, Americans Throughout the Nation Experience Art:

The Arts Endowment's *Regional Touring Program* helps bring high-quality performing, literary, and visual arts activities to communities across the country. Offered in partnership with the six Regional Arts Organizations, the program provides assistance for interstate touring and gives priority to underserved communities. The *NEA Regional Touring Program* reflects both national priorities and the unique opportunities and needs of each region; virtually all grants awarded supplement touring performances with other community and educational activities. Reports from FY 2011 (the most recent year for which data are available) indicate that more than 500 communities were reached through nearly 1,600 performances and 4,400 related activities.

Outcome #2: Americans of All Ages Acquire Knowledge or Skills in the Arts

Arts education is a hallmark of civilization, and the need for the Arts Endowment's continued leadership in arts education is clear. Although Federal law has designated arts education a core academic subject to be taught in our Nation's public schools, States have struggled to keep it in the curriculum. Budget cuts to State education departments, State Arts Agencies, and school districts have contributed in many cases to a weakening of arts education at the local level. Another concern is that State standards for evaluating teacher practices and assessing student learning in the arts differ widely – as do strategies for their implementation.

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In this environment, the NEA can be most effective in two ways: by upholding rigorous, standards-based arts education for K-12 students and teachers, in and out of school; and by providing Americans of all ages with more informal opportunities to learn in and about the arts. One track involves supporting arts education projects that adhere to National or State standards and that include knowledge- and/or skills-based assessment of students and/or teachers. The other track is broader; it accommodates Americans still in school, those no longer in school, and those yet to begin school. These types of arts education grants might involve a seminar held as part of a theater performance, or a docent tour as part of a museum event. They might include a teaching artist at a day-care center or a writer's workshop at a nursing home. These projects will have met NEA standards for artistic excellence, as attested by rigorous peer review.

Generational shifts also reinforce the need for the NEA's renewed focus on lifelong learning in the arts. For the past few decades, Baby Boomers and older-age cohorts traditionally have accounted for most of the Nation's arts-goers.² As these Americans head into retirement, there is every reason to expect their continued participation in the arts through classes, lessons, workshops, and online courses.

For children and youth, meanwhile, informal opportunities for arts learning will address a crucial gap that may or may not be filled by local school curricula. Even if arts education is not yet universal, today's employers are acutely aware of the capacity for risk-taking and creative thinking that the subject can bestow. Business leaders have identified such abilities as highly desirable for the 21st-century, even as they acknowledge problems in finding creative workers among today's job applicants.³ From this vantage, arts education can not only improve the quality of Americans' arts experiences, it may well improve the quality of their lives and livelihoods. The following table highlights accomplishments made possible through this funding. (Significant changes to the Agency's FY 2012 goal structure preclude comparative reporting across previous fiscal years. Required reports on FY 2007 through FY 2011, which reflect the goal structures of applicable Performance Plans, are contained in the GPRA Performance Reports section.)

Americans of All Ages Acquire Knowledge or Skills in the Arts
Selected Performance Results – FY 2012

Fiscal Year	Teachers Compensated	Children/Youth Benefitting	Distinct Communities Served
2012 Projected	3.5 k - 4.5 k	8 m - 9 m	.7 k - 1 k

[Numbers are rounded. k=thousand; m=million.]

The cumulative accomplishments reflected in this table result from the 486 direct grants and cooperative agreements awarded under this outcome. Below is a list of representative project activities supported by grants awarded to ensure that Americans

² For information about national rates of arts participation and arts learning from 2002 to 2008, see NEA Research Report #49, *2008 Survey of Public Participation in the Arts* (2009).

³ The Conference Board, *Ready to Innovate: Are Educators and Executives Aligned on the Creative Readiness of the U.S. Workforce?* (2008).

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of all ages acquire knowledge or skills in the arts. Not all of the activities are confined to this strategic outcome.

- Lifelong learning activities for children, adults, and intergenerational groups.
- Standards-based arts education activities for pre-K through 12 students.
- Informal education programs, workshops, and demonstrations.
- Mentorships and apprenticeship programs.
- Professional development for artists, teaching artists, teachers, and other education providers.
- Assessments and evaluations of arts learning.
- Online courses or training.
- Lectures and symposia.
- Production, publication, and distribution of teachers'/facilitators' guides.
- Innovative practices in arts learning for Americans of all ages.

Here are some recent examples of grants awarded through our new *Engaging the Public with Diverse and Excellent Art* goal for projects that will provide opportunities for Americans of all ages to acquire knowledge or skills in the arts.

The **City of Mesa, Arizona** (aka **Mesa Arts Center**) was awarded a \$58,000 FY 2012 matching grant to support *Jazz from A to Z*. Working with artists from Jazz at Lincoln Center, middle and high school jazz band students participate in jazz clinics; and history and music teachers attend professional development workshops to learn how to integrate jazz into the curriculum. As many as 190 students are expected to participate.

In **Boise, Idaho**, the **Log Cabin Literary Center, Inc.** received a \$15,000 FY 2012 matching grant to support *Writers in the Schools*, a creative writing program for students and teachers. Professional teaching artists will lead year-long residencies in rural, urban, and alternative schools, including weekly, hour-long writing workshops to help students improve their writing and reading skills, develop a portfolio of work, and participate in ongoing peer critiques. As many as 1,600 students, grades 4 through 12, are expected to participate in the project.

In **New Orleans, Louisiana**, **Friends of NORD, Inc.** received a \$40,000 FY 2012 Challenge America matching grant to support a tuition-free youth and senior citizen dance education program. The program is organized by the NORDC/NOBA Center for Dance, which is a cultural community partnership of the New Orleans Recreation Development Commission and the New Orleans Ballet Association. The project will include more than 3,000 classes, workshops, intergenerational opportunities, performances, and family activities for an estimated 100 senior citizens and 750 students; an additional 4,000 youth and adults will be reached through free performances.

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In **Old Town, Maine**, the **Maine Indian Basketmakers Alliance** received a \$30,000 FY 2012 matching grant to support an apprenticeship program for master Native American basketmakers to teach ash and sweetgrass basketry traditions. The program provides partial support for master basketmakers from four federally-recognized Maine tribes (Maliseet, Micmac, Passamaquoddy, and Penobscot) to teach the ancient skills of ash and sweetgrass basketry art to the next generations. The project empowers at-risk youth to become teachers themselves and to earn a sustainable living through this ancient indigenous art, and will involve as many as 20 artists.

In **St. Paul, Minnesota**, **COMPAS, Inc.** was awarded a \$20,000 FY 2012 matching grant to support *Arts Camps for Older Adults*, a program in which professional artists will work in elder care facilities with residents, staff, and family members to create art. The project, conducted in partnership with the Minnesota Creative Artists and Aging Network, will bring professional artists skilled in their craft – such as tile-making, painting, and writing – to work in selected adult care centers during a three-month residency. An audience of nearly 300 is expected to be served through this project.

In **Providence, Rhode Island**, **Community Musicworks** was awarded a \$20,000 FY 2012 Challenge America matching grant to support free music education and performance programs targeted to reach at-risk children and youth. The Providence String Quartet will be in residence to teach and mentor more than 500 students as well as perform in its downtown storefront facility and in other community venues. An estimated audience of 1,000 is expected to attend the performances.

In **Alexandria, Virginia**, the **Alexandria Symphony Orchestra, Inc.** received a \$10,000 FY 2012 matching grant to support *Music Makes a Difference*, an education program for school children. Plans include concerts for students in grades 3 through 5 where performances of Gustav Holst's *The Planets* will relate to science studies, a mentoring program for middle and high school students, and a culminating *Family Arts Festival* where students play side-by-side with orchestra musicians. An estimated audience of 5,000 is expected.

In **Wausau, Wisconsin**, the **Wausau Conservatory of Music, Inc.** received a \$10,000 FY 2012 matching grant to support the *Chamber String Camp*, *Middle Level Band Camp*, and *Jazz/Workshop Festival*. Tuition assistance for young instrumental music students and compensation for teaching artists will be provided.

In addition to the direct grant examples cited above, here are some examples of leadership and partnership activities that support the outcome, Americans of All Ages Acquire Knowledge or Skills in the Arts:

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- *Poetry Out Loud*, which began as a pilot in 2005, most recently served some 365,000 students during the 2011-2012 school year. Using curriculum and an anthology developed as part of *Poetry Out Loud*, teachers introduce students to poetry and recitation before holding a classroom poetry recitation competition. Following a pyramid structure, classroom champions move on to school competitions, regional and State competitions, and ultimately to the National Finals, which are held each spring. The Arts Endowment's partner, the Poetry Foundation, produces substantive educational materials for teachers participating in *Poetry Out Loud* and provides additional financial support for the National Finals, with a total contribution of approximately \$500,000.
- Since beginning as a pilot in 2006, *The Big Read* has awarded 1,027 grants to organizations in communities across all 50 States, as well as the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, for reading programs devoted to the featured authors in *The Big Read* library.

Outcome #3: American Communities are Strengthened Through the Arts

Through Outcome #3, the NEA enables nonprofit organizations and their partners to enhance the livability of their communities. Measurement of public benefits that accrue from these grants will require long-range metrics, which ultimately may involve special studies considering factors such as property values, in-and-out migration patterns, and data from community member surveys. But in the short term, the Agency expects grantees and their community partners to show incremental progress toward achieving greater livability.

Some of that progress will be reflected in the number of communities nationwide that integrate the arts with new or ongoing livability efforts. Progress also will be characterized in terms of the number and variety of new partnerships resulting from these grants. In addition, grantees will be asked to demonstrate a specific set of outcomes related to each strategy they undertake. The following table highlights accomplishments made possible through this funding. (Significant changes to the Agency's FY 2012 goal structure preclude comparative reporting across previous fiscal years. Required reports on FY 2007 through FY 2011, which reflect the goal structures of applicable Performance Plans, are contained in the GPRA Performance Reports section.)

American Communities are Strengthened Through the Arts
Selected Performance Results – FY 2012

Fiscal Year	Individuals Compensated	Matching Funds Generated	Distinct Communities Served
2012 Projected	2.0 k - 2.5 k	\$15 m - \$16 m	.1 k - .2 k

[Numbers are rounded. k=thousand; m=million.]

The cumulative accomplishments reflected in this table result from the 140 direct grants and cooperative agreements awarded under this outcome. Below is a list of

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representative project activities supported by grants awarded to ensure that American communities are strengthened through the arts.

- *Develop Plan(s) for Cultural and/or Creative Sector Growth.* Includes activities such as planning for arts/cultural districts and creative industry hubs/districts/clusters, cultural asset mapping, and other cultural planning activities.
- *Use Design to Enhance/Revitalize Public Space(s).* Includes design activities such as charrettes and competitions, development of design specifications, and other design activities.
- *Commission and/or Install New Art to Improve Public Space(s).* Includes commissioning of permanent and/or temporary site-specific public art (e.g., murals and sculptures, sculpture gardens, and waterfront art).
- *Plan and/or Conduct Arts Activities to Foster Interaction Among Community Members.* Includes arts activities (e.g., arts festivals, outdoor exhibitions, and performances) intended to engage community members in public spaces.
- *Engage Artists and/or Arts Organizations.* Includes involvement of artists and the arts community in cultural planning, design, and community engagement activities.
- *Innovative Community-based Partnerships* that integrate the arts with livability efforts.
- *Other Strategies* to improve livability through arts and design.

An important component for achieving this outcome will be the *Our Town* initiative. It continues to build on the lessons learned from our previous leadership initiatives, as well as from our core grantmaking, and focuses particularly on the benefits to communities of fully integrating the arts, artists, arts organizations, and design into community life. Additional information on *Our Town* can be found in the Leadership Initiative section of this document.

Here are several examples of grants awarded through our new *Engaging the Public with Diverse and Excellent Art* goal for projects that will provide opportunities for American communities to be strengthened through the arts.

In Jackson, Mississippi, the **Arts Center of Mississippi** received a \$75,000 matching *Our Town* grant to support arts programming, public art, creative entrepreneurship, and branding initiatives to develop the Midtown Arts District. The Midtown neighborhood of Jackson, Mississippi, is an area of approximately 215 acres with an estimated 2,000 residents, and is home to the Midtown Arts District, a community of artists in diverse disciplines. The not-for-profit Arts Center of Mississippi is partnering with Hinds County Economic Development Authority to further develop the Midtown Arts District. Four additional local

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partners will also participate in the project. The project will deliver business assistance training to creative entrepreneurs, encourage stronger relationships between the arts and business community, and develop an arts identity for the district through public art works and branding. It is anticipated that the development of the district will benefit residents, artists, and businesses – as well as the greater Jackson community – by increasing tri-county attendance at Midtown arts events, instilling a greater sense of community pride, and fostering integration of the arts into future phases of the Midtown Master Plan.

In Rahway, New Jersey, the Union County Arts Center was awarded a \$75,000 matching *Our Town* grant to support RAHWAY ARTsPART, a series of creative performances and community engagement activities designed to harness the opening of Hamilton Stage. Rahway has a diverse population of 29,000 and is located 20 miles south of Manhattan. Union County Arts Center, the City of Rahway's Redevelopment Agency, Arts Guild New Jersey, LuceGroup, Rahway Arts District, and a wide array of artistic and community partners will collaborate on RAHWAY ARTsPART. This grant will build off of the arrival of seven new performance groups, including the American Repertory Ballet, Nai-Ni Chen Dance Company, StrangeDog Theatre Company, the World Beat Box Association, and others to do programming not only in the new theater but all over town. A wide array of artistic and community partners will collaborate with the visiting groups to produce two major outdoor arts festivals, a convening of Asian-American dance teachers, and BOXCON, the International Human Beatbox Convention. They will also create an inter-school Afro Latin Jazz band led by Grammy Award-winning musician Arturo O'Farrill. The partners will prioritize accessibility planning to enable people of all ages, ethnicities, and abilities in the arts to enjoy the activities.

In Santo Domingo Pueblo, New Mexico, the Santo Domingo Tribe received a \$100,000 matching *Our Town* grant to support a cultural district plan. The Santo Domingo Pueblo, located between Albuquerque and Santa Fe, New Mexico, is listed on the National Register of Historic Places and is currently home to more than 3,600 tribal members. The Santo Domingo Planning Department and Housing Authority, Enterprise Community Partners, Tribal Utility Authority, Cornerstones Community Partnerships, Atkin Olshin Schade Architects, and Sustainable Native Communities Collaborative will work together on a cultural district plan for Santo Domingo Pueblo. The tribe is looking for new ideas to address its challenges, which include 25 percent of tribal members living below the poverty level and a 23 percent unemployment rate. The cultural district plan will document the cultural heritage of the Santo Domingo Tribe, establishing livable and culturally appropriate guidelines for historic adobe structures and new development. The plan will also promote cultural and artistic entrepreneurship.

In Harris, New York, the Center for Discovery, Inc. received a \$70,000 FY 2012 matching grant to support *CENTERpieces*, a series of site-specific artworks created in abandoned buildings and empty lots throughout the Catskills region. Curators Julie Courtney and Jennie Shanker will work with artists Allan

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Wexler, Richard Torchia, Shay Church, and Ann Hamilton to develop each site. Artists will have the opportunity to work freely to create works that celebrate the history, community, vitality, and tourism of the region. The works will be accessed by approximately 2,000 people.

In **Fargo, North Dakota, the Plains Art Museum** received a \$50,000 FY 2012 matching grant to support the creation of a public art work by sculptors Rob Fischer and Kevin Johnson. The artists will transform the grounds of a decommissioned coal-fired electrical power plant in Moorhead, Minnesota, directly across the Red River from Fargo, North Dakota. The project, titled *Defiant Garden*, is a collaborative effort between the museum and the City of Moorhead's Public Service Commission; it is estimated that the project will reach 70,000 people.

In addition to the direct grant examples cited above, what follows is an example of a leadership activity that supports the outcome American Communities are Strengthened Through the Arts:

Mayors' Institute on City Design (MICD)

Knowledge of physical design is a fundamental tool that mayors can wield to positively affect the social well-being and economic vitality of their cities. The structure of the *MICD* has remained the same since its inception: eight mayors, eight designers, and eight problems. Each mayor brings his or her city's most critical urban design issue to discuss. Following a case-study method, general principles evolve out of specific problems. Mayors, architects, planners, landscape architects, and development experts discuss ideas and engage in an animated debate. These dynamic sessions often advance creative solutions while imparting a healthy understanding of the value of good design. Many mayors have stated that attending the Institute was a seminal moment in their time as leader, changing the way that they ran their cities for the better.

To Promote Public Knowledge and Understanding about the Contributions of the Arts

The NEA remains the premier national source for data and analyses about the U.S. arts sector. Increasingly, the Agency has aimed not only to explore the factors and conditions affecting arts participation and art-making, but also to document the impact of the arts on American lives and communities. More sophisticated and credible information about the value and impact of the arts will enable the NEA, in turn, to pursue its overall mission more effectively. Some of that knowledge will bear directly on the Agency's work in supporting arts creation, arts participation, lifelong learning in the arts, and arts integration with community life. Other research findings will influence national and community-level indicators of creative and cultural vitality, allowing policy-makers to become better informed about the distinctive contributions the arts make to society.

In particular, the Arts Endowment will communicate knowledge about the value and impact of the arts to other Federal agencies and departments and Congress to complement

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their efforts to serve the American people. Internationally, the NEA will raise awareness among other countries and cultures about the exemplary offerings of American artists; conversely, the Agency will expose American audiences to new and exciting works being created abroad. Such exchanges – whether across government or across national boundaries – can significantly extend the reach and impact of the arts.

Outcome #1: Evidence of the Value and Impact of the Arts is Expanded and Promoted

The Agency will share relevant findings and raw data with the public through publications, presentations, convenings, and news and social media. These efforts will bring cohesion to ongoing cultural research endeavors spanning many different disciplines across the United States. In tracking this work, the NEA is paying close attention to cutting-edge research strategies and is encouraging a new generation of arts and cultural researchers. Here are a few examples of NEA Research activities intended to expand and promote evidence of the value and impact of the Arts:

NEA Research Publications

How Art Works: The National Endowment for the Arts' Five-Year Research Agenda, with a System Map and Measurement Model. In addition to describing a hypothesis-driven model and measurement framework for evaluating the arts' impacts on individuals and communities, this report describes how the model coincides with the NEA's five-year Research Agenda. September 2012. <http://www.arts.gov/research/How-Art-Works/index.html>

NEA Research Convenings and Webinars in FY 2012

Improving Arts Learning through Standards and Assessment: A National Endowment for the Arts Research Roundtable. Hosted a research roundtable, as an opportunity for researchers, educators, and policy-makers to discuss the implications of a nationwide study of arts assessment tools and practices. The Agency webcast the roundtable event, which featured discussion of new NEA report, *Improving the Assessment of Student Learning in the Arts*. February 2012. <http://arts.gov/research/ArtsLearning/index.html>

Other NEA Research Projects

2012 Survey of Public Participation in the Arts. Conducted the 2012 Survey of Public Participation in the Arts (SPPA), with a largely revised questionnaire that reflects changing demographics, the role of information technology, and a wider variety of arts-engagement forms than has been studied previously.

Strategic Partnerships

Interagency Task Force on the Arts and Human Development: Collaborating with the U.S. Department of Health & Human Services (Administration for Children & Families, the Administration on Aging, and the National Institutes of

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Health) and the Department of Education to build national research capacity and evidence-sharing with researchers, practitioners, and the general public. This initiative stemmed from a March 2011 convening held by ORA and featuring HHS Secretary Kathleen Sebelius and other high-ranking HHS officials.

In keeping with the Agency's increased emphasis on research activities, a thorough accounting of FY 2012 NEA research activities can be found in the Research and Analysis section of this document.

Outcome #2: Partnerships Increase the Domestic and International Impact of the Arts

As the Federal government's lead agency in supporting the arts, and as its primary sponsor of arts-related research, the Arts Endowment is a vital resource for domestic and international organizations that have common cause with the NEA.

At the Federal level, the Arts Endowment can communicate knowledge about the value and impact of the arts to other agencies and departments to complement their efforts to serve the American people. In recent years, the NEA has formed strategic partnerships with the Departments of Education, Agriculture, Defense, and Interior, in addition to working with the Institute of Museum & Library Services, the National Endowment for the Humanities, the Smithsonian Institution, the Library of Congress, the National Park Service, the Environmental Protection Agency, and the Departments of Transportation and Housing and Urban Development, among others. Here is one example of such a partnership:

In December 2011, the Arts Endowment announced a partnership with the Department of Defense (DoD) in which the NEA's critically acclaimed *Operation Homecoming* writing program would take place for the first time in a clinical setting as part of a formal medical protocol to help heal service members at the National Intrepid Center of Excellence (NICoE), Walter Reed National Military Medical Center in Bethesda, Maryland. NICoE is a new facility that provides an interdisciplinary team assessment in a holistic, patient- and family-centered environment, and is dedicated to providing care to service members and their families dealing with the signature wounds from the Iraq and Afghanistan wars: Traumatic Brain Injury (TBI) and Psychological Health (PH) conditions.

Initially, this landmark partnership between NEA and DoD enabled *Operation Homecoming* to conduct a year-long pilot comprised of two elements: an expressive writing workshop for troops as part of their clinical rehabilitation, and a more informal four-week creative writing and storytelling series for service members and their families outside of the clinical setting at Walter Reed. The NEA worked with writers with military experience or previous experience working with the military community while conducting the *Operation Homecoming* programs. After assessing the impact of the program following its initial 3-month trial phase, NEA and DoD agreed to expand the activities to include neurologic music therapy and other arts interventions that showed promise of positive benefits for the participating patients at Walter Reed. During the pilot, the NEA and its partners at NICoE have worked to

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develop strategies to measure the efficacy of the programs to better understand the value of the arts in the healing process, particularly for service members recovering from war-related TBI and PH conditions. Upon completion of the pilot, *Operation Homecoming* and its research will be evaluated for possible replication at other rehabilitation centers around the country. We are currently exploring the possibility of extending our partnership with DoD into FY 2014.

Internationally, the NEA can raise awareness among other countries and cultures about the exemplary offerings of American artists. Alternatively, the Agency can expose American audiences to new and exciting works being created abroad. Whether working through the U.S. State Department with government arts agencies in China, Japan, Pakistan, or Egypt – or bringing American art to audiences in Russia or Mexico – the Arts Endowment historically has played both formal and informal roles in cultural diplomacy through the arts. Over the next several years, the NEA will renew efforts to strengthen cultural ties and promote the exchange of artistic resources between the United States and its international partners.

Specifically, the NEA is pursuing the following strategies to achieve this outcome:

- 1) Identify Federal agencies that perceive great value in enhancing the role of arts in their program planning and cultivate relationships with those agencies, as we have with the recently-announced interagency research task force on the arts and human development.
- 2) Identify international partners (e.g., non-profit organizations, non-governmental organizations, foreign ministries of culture) that have the means, opportunity, and inclination to pursue a strategic goal shared by the NEA and cultivate relationships with those organizations.
- 3) Work efficiently and effectively with the State Arts Agencies and Regional Arts Organizations to develop strategies that can help the Agency achieve this outcome.

Here are some examples of activities that support the outcome, Partnerships Increase the Domestic and International Impact of the Arts:

- The ***National Arts and Humanities Youth Program Awards*** is a cooperative venture among the Arts Endowment, the Humanities Endowment, the Institute for Museum and Library Services, and the President's Committee on the Arts and the Humanities. The \$10,000 awards recognize and focus national attention on exemplary after-school programs fostering the creative and intellectual development of America's children and youth through education and practical experience in the arts or the humanities.
- ***USArtists International***. In FY 2011, the most recent year for which complete figures are available, 89 organizations were supported for festival performances that included 1,469 American artists performing in 36 countries over 6 continents.

These artists offered audiences abroad a dynamic and diverse representation of the non-profit cultural sector in the United States. Festivals can be an important income stream for artists and they can generate important breakthroughs. For example, Theater of the Emerging American Moment (TEAM), a young New York based company, was supported to perform a new work at the Edinburgh Fringe Festival in 2011. This work distinguished itself as one of the festival's leading productions. TEAM received the 2011 Edinburgh International Festival Prize, which was a commission in the amount of 10,000 British pounds and an invitation for the company to return in 2012 with a new work-in-progress.

- ***ArtsLink Residencies.*** The most recent fully completed round of residencies occurred during October-November 2011, and were for performing artists and arts managers. Appalshop, a multidisciplinary arts and education center located in the Appalachian town of Whitesburg, Kentucky received support to host Gochmyrat Gutlyyev, a folklorist and storyteller from Turkmenistan. Gutlyyev connected deeply with the community, seeing many similarities to the mountain culture of his homeland. He engaged with community members, students, writers, and other storytellers. A highlight was his work with the Media Lab students, teens who had little previous knowledge of Turkmenistan and the region of Central Asia. The discussions were revealing to the students and raised awareness within the organization of the importance of creating opportunities for young people in Appalachia to engage internationally. Elizabeth Barret, Director of Appalshop Archive, commented, "We were exposed to an artist who is living within a closed society and is navigating ways to express his own ideas. It underscored our belief that for cultures and communities to flourish, artists need to have a voice in public life." Appalshop continues to be in contact with Gutlyyev and several exchange projects are in development.
- ***Southern Exposure: Performing Arts of Latin America.*** In 2012, the program's inaugural year, five consortia projects were funded, including 23 presenters across 13 States for projects that will take place in late 2012 and 2013. Projects include experienced presenters acting as anchor organizations, thus allowing smaller and less experienced presenters to bring the international artists to their communities with strong programs. For example, Lincoln Center in New York and Grand Performances in Los Angeles are working with small organizations in New Mexico and Connecticut for the tour of Maracatu Nação Estrela Brilhante, a noted Brazilian music ensemble that preserves the African-influenced performance genre of *maracatu* that originated in northeastern Brazil. The 23 presenters that have received support are working with a diverse array of community partners on program planning and implementation over the coming months so that comprehensive materials and activities are prepared before the tours begin. Mid Atlantic Arts Foundation will hold periodic virtual meetings with grantees over the first year of programming to identify lessons learned and successful practices; this information will be used for program refinement in FY 2014.

State/Regional Partnerships

Forty percent (40%) of the Agency's grantmaking funds are awarded to the State Arts Agencies (SAAs) and their Regional Arts Organizations (RAOs) through Partnership Agreements. In recent years, more than 2,000 communities have been served each year through grants made possible by these agreements.

Partnership funds to State Arts Agencies and Regional Arts Organizations are used for grantmaking and special initiatives in areas such as arts education and reaching underserved communities, and for staff and/or administrative support. Examples of recent activity carried out with NEA Partnership funds are:

ALASKA

Last year, ASCA's funding support for K-12 arts education served more than 16,000 students and more than 90 artists through 13 district-wide Artists in Schools (AIS) programs and 15 individual site programs. In order to be funded, applicants must demonstrate that their project is aligned with the State of Alaska arts curriculum.

DELAWARE

The Division of the Arts annually renews a Memorandum of Understanding with the Division of Parks & Recreation and the Division of Libraries. The former presents arts programming in state park venues in typically underserved geographic locations. The latter provides a summer reading/arts program in more than 20 libraries across the state. These partnerships are instrumental in reaching underserved audiences throughout the state.

IOWA

A brand new initiative launched in 2012, the *Celebration of Iowa: Agriculture Art Contest* was a joint partnership between the Iowa Division of Cultural Affairs, the Iowa Arts Council, the Iowa Department of Agriculture, and the Iowa Farm Bureau to engage rural Iowa in the arts.

MISSOURI

The Missouri Arts Council covered both ends of the state with affordable classic American dance and music through partnerships with Dance St. Louis and the American Jazz Museum. *Spring to Dance* presented thirty dance companies performing on three nights for just \$10 a ticket in St. Louis, with the overall goal of making dance affordable and attractive to a broad audience. *Jammin' at the Gem* presented jazz concerts at the historic Gem theater in Kansas City.

OREGON

The Oregon Arts Commission developed an Arts Access Reimbursement grant program in 2011. Since then, twenty-two grants have been awarded to offset access

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expenses incurred by Oregon's nonprofit arts organizations to ensure public access to all individuals. The program has been effective serving a variety of underserved populations in both rural and urban areas.

TEXAS

Recognizing the small number of arts organizations in rural counties, the Texas Commission on the Arts (TCA) created the Rural Initiative and chose libraries as the primary beneficiary. Artists are selected from the Texas Touring Roster and provided fees to deliver arts programs to libraries for no charge to the library or audiences that attend. During the summer of 2012, the TCA's rural initiative funded 48 performances across 29 counties that had not previously been served by the Commission.

VERMONT

The Vermont Arts Council's *Breaking Into Business* (BiB) program consists of an intensive two-day workshop for artists to help them achieve success in marketing, promoting, and selling their artwork. One month after the workshop, participants may submit applications for a small grant to fund an aspect of their business plan, which they began developing during the workshop.

WEST VIRGINIA

A partnership with VH1 Save The Music Foundation and the Beckley Area Foundation enables the West Virginia Commission on the Arts to provide middle schools having certified music teachers, \$30,000 worth of free musical instruments. The Commission has raised a 50% match for VH1's contribution through foundation grants, corporate sponsorship, and legislative appropriation for the project. To date, VH1 has reached 35 schools in West Virginia and intends to continue this project until all middle schools are reached. West Virginia represents VH1's first statewide initiative.

WISCONSIN

The Woodland Arts Initiative, founded and funded in part by the Wisconsin Arts Board, with Indian Gaming Compact funds designated by the state legislature, promotes and develops a foundation of cultural and economic support for traditional and contemporary Native arts in Wisconsin. One outcome of the Initiative is an arts network dedicated to providing support for the eleven Indian tribes and urban Indian communities in Wisconsin.

Federal Partnerships

The NEA has worked to partner closely with other larger Federal agencies where the arts have not traditionally been a focus. In a series of firsts, the Department of Housing and Urban Development included the arts as a priority within a \$100 million grant program

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focused on regional planning; the Department of Education included the arts as an invitational priority in its *Promise Neighborhood* funding; the Department of Agriculture will partner with the NEA on the *Citizens' Institute on Rural Design*; and the NEA has a formal role with the President's Domestic Policy Council on both the Rural Council and the Urban Affairs Working Group.

In particular, the NEA has increased its work with the Department of Defense (DOD) in two key areas:

- *Blue Star Museums* is a partnership among the NEA, DOD, Blue Star Families, and more than 1,800 museums across the United States to offer free admission to military families from Memorial Day through Labor Day every summer.
- Beginning in December 2011, the NEA brought *Operation Homecoming (OH)* to the National Intrepid Center of Excellence (NICoE) at the Walter Reed National Military Medical Center (WRNMMC). *OH* is an expressive writing program that takes place in a clinical setting for all NICoE patients dealing with Traumatic Brain Injury and Post-Traumatic Stress. Additionally, the NEA has partnered with WRNMMC to undertake clinical research on the efficacy and outcomes of this work. Plans are currently underway to expand this work to also include neurological music therapy.

Leadership Initiatives

NEA initiatives provide an opportunity for the Arts Endowment to address special artistic or cultural needs – whether field- or geography-based. Many, as described earlier in this document, include substantial educational components. Highlights of current initiatives follow.

Our Town

In January 2011, the NEA launched [Our Town](#), the most recent addition to the Agency's core grant programs, which builds on the NEA's longstanding support for communities and the ability of the arts to strengthen them. *Our Town* was created to invest in creative placemaking projects designed to use the arts to help shape the social, physical, and economic characters of cities and towns, that have been proposed by a partnership consisting of an art or design organization and a local governmental entity.

The initial announcement of the *Our Town* funding opportunity resulted in 112 eligible applications, from which 51 grant awards totaling \$6.5 million were made to projects in 34 States. The grants ranged from \$25,000 to \$250,000 and represented a range of rural, suburban, and urban communities with populations ranging from just over 2,000 to more than 8.2 million people. More than half of the *Our Town* grants were awarded to communities with a population of less than 200,000, and seven to communities of fewer than 25,000 people.

Now in its second year, the *Our Town* initiative received 317 eligible applications, 80 of which are receiving grant awards totaling almost \$5 million, and reaching 44 States plus the District of Columbia. The majority of the grants in this round, 41 of the 80, were given to communities of less than 50,000 people, with five grants going to towns of less than 500 people.

Between the two years, *Our Town* grant awards have been made in all 50 States plus the District of Columbia to projects that fall into one of three categories:

Arts engagement projects have included community-focused festivals and exhibitions of visual, media, dance, music, film, and tribal art; as well as a large number of public art investments – including exhibitions of temporary work, new permanent pieces, and job training around the conservation of existing works. Other engagement projects have focused on education, including development of entrepreneurship activities for artists, and projects that engage suburban communities around urban design issues.

Cultural planning projects are an essential first step in comprehensive cultural plans and investments. Recommended planning projects have included the mapping of local cultural assets, pre-development planning for cultural facilities and artist spaces, public art planning, creative district planning, as well as creative industry development planning.

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Design projects have been proven to lower operating costs and increase longevity of physical structures. Recommended design projects have enabled talented designers to work on public infrastructure – including public spaces, gateways, water basins, corridors and transportation hubs – and to design cultural facilities and artist spaces.

The minimum requirement for an *Our Town* application is a partnership between an art or design organization and a local governmental entity. However, the vast majority have additional partners: the recommended *Our Town* grants have a total 192 participating arts and design organizations and 566 additional partners.

Our Town is an example of the Administration's emphasis on using place-based approaches to assist cities and rural communities. This initiative has catalyzed partnerships with many Federal agencies, particularly the Department of Housing and Urban Development (HUD) and the Department of Agriculture (USDA).

Examples of *Our Town* projects can be found under the *American Communities are Strengthened Through the Arts* section of this document.

Blue Star Museums

Blue Star Museums is a partnership among the NEA, DOD, Blue Star Families, and more than 1,800 museums across the United States to offer free admission to military families from Memorial Day through Labor Day every summer.

Operation Homecoming

In December 2011, the Arts Endowment announced a partnership with the Department of Defense (DoD) in which the NEA's critically acclaimed *Operation Homecoming* writing program would take place for the first time in a clinical setting as part of a formal medical protocol to help heal service members at the National Intrepid Center of Excellence (NICoE), Walter Reed National Military Medical Center in Bethesda, Maryland. NICoE is a new facility that provides an interdisciplinary team assessment in a holistic, patient- and family-centered environment, and is dedicated to providing care to service members and their families dealing with the signature wounds from the Iraq and Afghanistan wars: Traumatic Brain Injury (TBI) and Psychological Health (PH) conditions.

Initially, this landmark partnership between NEA and DoD enabled *Operation Homecoming* to conduct a year-long pilot comprised of two elements: an expressive writing workshop for troops as part of their clinical rehabilitation, and a more informal four-week creative writing and storytelling series for service members and their families outside of the clinical setting at Walter Reed. The NEA worked with writers with military experience or previous experience working with the military community while conducting the *Operation Homecoming* programs. After assessing the impact of the program following its initial 3-month trial phase, NEA and DoD agreed to expand the activities to include neurologic music therapy and other arts interventions that showed promise of positive benefits for the participating patients at Walter Reed. During the

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pilot, the NEA and its partners at NICOE have worked to develop strategies to measure the efficacy of the programs to better understand the value of the arts in the healing process, particularly for service members recovering from war-related TBI and PH conditions. Upon completion of the pilot, *Operation Homecoming* and its research will be evaluated for possible replication at other rehabilitation centers around the country. We are currently exploring the possibility of extending our partnership with DoD into FY 2014.

Poetry Out Loud

By encouraging high school students to memorize and perform great poems, *Poetry Out Loud* helps students master public speaking skills, build self-confidence, and learn about their literary heritage. Created by the NEA and the Poetry Foundation, *Poetry Out Loud: National Recitation Contest* is administered in partnership with State Arts Agencies in all 50 States, as well as the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

For 2012-13, the eighth national year of *Poetry Out Loud*, State Arts Agencies are continuing to expand school participation, with as many as 2,400 schools and 380,000 students nationwide likely to participate. Fifty-three State and territory champions will gather in Washington, DC, to compete at the 2013 National Finals on April 29-30, 2013.

Big Read

Since 2006, more than 3.3 million Americans have attended a *Big Read* event; about 47,000 volunteers have participated locally; some 31,000 community partner organizations have been involved; and more than \$15 million has been awarded in grants, leveraging approximately twice that much locally. Grantees continue to receive – free of charge – printed *Big Read* educational materials, and also have access to these items online.

Mayors' Institute on City Design (MICD)

MICD is one of the Arts Endowment's Design leadership projects intended to protect and enhance the American built and natural environment and strengthen American communities. Established in 1986 to bring together mayors and design professionals to examine urban design challenges, it has since graduated more than 870 mayors. The idea originated with Charleston, South Carolina Mayor Joseph P. Riley and his friend Jaquelin Robertson, an architect and urban planner. In a letter to Mr. Robertson, Mayor Riley wrote:

“I have often said that I am the chief urban designer of my city. By that I mean that because of my position as mayor, I have many opportunities to affect proposed developments....making them better for the city or allowing them to be ordinary – or worse.”

The program has been recognized for its contributions with a Presidential Award for Design Excellence, a Progressive Architecture Award from *Architecture* magazine, and

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an Institute Honor Award from the American Institute of Architects. During the past year, *MICD* sessions have been held in New York City; Birmingham, Alabama; and Houston, Texas for mayors of small to medium American cities, as well as St. Louis, Missouri; Las Vegas, Nevada; and Charleston, South Carolina for mayors representing larger cities. Additionally, a number of other cities have been reached through a technical assistance program for alumni mayors that was launched in the summer of 2008.

USArtists International

USArtists International, in partnership with Mid Atlantic Arts Foundation, supports performances of American dance, theater, and music ensembles at international festivals abroad. Additional funding is provided by the Andrew W. Mellon Foundation. This public-private partnership is the only national source of support available for American artists invited to perform at international festivals.

ArtsLink Residencies

ArtsLink Residencies, in partnership with CECArtsLink, the Kettering Fund, and the Ohio Arts Council, provide support for U.S. cultural organizations to host five-week residencies for artists from Central Europe, Central Asia, the Balkans, and Russia. All residencies include substantive opportunities for the visiting arts leaders to engage with the local community.

Southern Exposure: Performing Arts of Latin America

Southern Exposure: Performing Arts of Latin America, in partnership with the Mid Atlantic Arts Foundation and the Robert Sterling Clark Foundation, supports consortia of U.S. arts organizations to present exemplary contemporary and traditional performing artists from Latin America to a broad range of communities across the United States. The programming includes extensive activities to engage the visiting Latin American artists with the local community. The structure of *Southern Exposure* allows presenters to realize cost efficiencies through the sharing of expertise and project expenses. Projects are comprised of a lead presenter and at least two partner presenters in different cities or States.

NEA Jazz Masters

The National Endowment for the Arts celebrates jazz as America's truly indigenous musical art form through its *NEA Jazz Masters* initiative. Since its inception in 1982, 128 awards have been made to honor musicians and advocates who have dedicated their lives to the music. The program expanded in 2005 to raise awareness of America's rich jazz heritage and encourage its nurturing and future growth through added nationwide educational and performance components, targeting audiences of all ages and backgrounds. The initiative further expanded in 2008, with the addition of the NEA Jazz Masters Live component, through which more than 48 individual NEA Jazz Masters have

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been presented in some 32 venues throughout the United States, reaching nearly 161,000 people with performances, master classes, clinics, lectures, and short term residencies.

Shakespeare for a New Generation

Shakespeare for a New Generation represents the current phase of the *Shakespeare in American Communities* initiative, launched in New London, Connecticut in September 2003. By the end of the latest round of activities in May 2012, the program will have:

- Provided almost 7,000 performances of professional Shakespeare productions to more than 2,800 communities in all 50 States, the District of Columbia, and the U.S. Virgin Islands.
- Entertained more than 2.25 million community audience members (including students as mentioned below).
- Provided more than 17,000 educational activities and performances for approximately 1,900,000 students in over 5,000 middle and high schools.
- Reached more than 35 million students through the free distribution of 89,000 Shakespeare multi-media toolkits used by teachers in more than 40,000 middle and high schools, of which 36% are in rural communities.

National Heritage Fellowships

The *NEA National Heritage Fellowships* were established to recognize lifetime achievement, artistic excellence, and contributions to our Nation's folk and traditional arts heritage. The Arts Endowment annually awards these one-time-only Fellowships to master folk and traditional artists. FY 2012 marked the 31st anniversary of this initiative; since its beginning in 1982, more than 370 Fellowships have been awarded to traditional artists residing in 49 States (all except Delaware), the District of Columbia, Guam, the U.S. Virgin Islands, Puerto Rico, and the Northern Mariana Islands.

Research and Analysis

The NEA's Office of Research & Analysis (ORA) aims to provide statistically reliable information that allows arts administrators, policy-makers, educators, civic leaders, artists, journalists, and the general public to participate in an evidence-based dialogue about the role and vitality of arts and culture in the United States.

NEA Strategic Plan Development

In partnership with the NEA's Office of the Deputy Chairman for Management & Budget, ORA completed a new Strategic Plan for the Agency. Covering FY 2012-2016, the final document was posted on the NEA's website in early FY 2011. The plan represents a substantive effort to introduce outcomes data-based decision-making into the NEA's program activities, and establishes for the first time a goal and outcome for NEA research. It outlines several key performance measures, some of which will require special studies and surveys, including:

- ***Independent, Post-Award Reviews.*** The Agency has initiated a pilot test for post-award, independent, citizen-expert reviews of selected NEA grants to determine the degree to which the NEA objective of creating excellent art was achieved. The pilot test is designed to develop a replicable, scalable process for examining grants awarded for the creation of art to evaluate the degree to which NEA-supported projects demonstrated excellence. The pilot test will also assess the feasibility of evaluating innovation in the creation of art and in the delivery of art to audiences.
- ***Grantee Audience Surveys.*** The Agency has completed the first phase of a pilot test investigating methods for surveying audiences in attendance at art performances or exhibits funded by NEA grants. The purpose of these surveys is to gauge the nature and extent of audience response to these art experiences and to collect enough additional information about audience members and their prior exposure to similar events to conduct a detailed analysis of the impact of NEA-funded presentations.

The first phase of the pilot test included a literature review (<http://www.arts.gov/research/Audience-Impact-Study-Literature-Review.pdf>) and a pilot test of several survey administration methods. The second phase of the pilot test, to be conducted this year, includes a web-administered survey of a larger number of grantees. As a service to grantees, the NEA will use the survey data not only to inform its own performance assessment; it also will provide grantees with analyses of results from their individual surveys.

- ***Annual Benchmarking Surveys.*** To supplement data from its periodic Survey of Public Participation in the Arts (SPPA), the NEA will sponsor an annual household survey to better understand the range and extent of American participation in the arts – through attendance, personal creation of artwork, and arts engagement through electronic media and learning opportunities. In 2012,

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the Office of Research & Analysis completed a pilot test of this Annual Arts Benchmark Survey (AABS). The data from the survey will inform the Agency's decisions about how best to serve one of its strategic goals: "To Engage the Public in Diverse and Excellent Art."

- **Grant Application Guidance Survey.** The NEA pilot tested and began implementing a Grant Application Guidance Survey that collects information from NEA grantees about their perceptions of the grant application guidance provided by the NEA. This survey is intended to provide a direct performance measure for the various NEA disciplines and will be reported multiple times per year to the NEA's senior leadership.

In general, the NEA Strategic Plan elevates the research and evaluation functions throughout the Agency, in service of a new strategic goal: "To Promote Public Knowledge and Understanding about the Contributions of the Arts."

NEA Research Publications

In FY 2012, the Office of Research & Analysis issued the following publications, based on original analyses that the office conducted or commissioned:

Audience Impact Study Literature Review. This literature review focuses on previous work on assessing the intrinsic impacts of arts events. October 2011.
<http://www.arts.gov/research/Audience-Impact-Study-Literature-Review.pdf>

How Art Works: The National Endowment for the Arts' Five-Year Research Agenda, with a System Map and Measurement Model. In addition to describing a hypothesis-driven model and measurement framework for evaluating the arts' impacts on individuals and communities, this report describes how the model coincides with the NEA's five-year Research Agenda. September 2012.
<http://www.arts.gov/research/How-Art-Works/index.html>

Research Report #55R – The Arts and Achievement in At-Risk Youth: Findings from Four Longitudinal Studies. This report examines arts-related variables from four large datasets -- three maintained by the U.S. Department of Education and one by the Department of Labor -- to understand the relationship between arts engagement and positive academic and social outcomes in children and young adults of low socioeconomic status (SES). Conducted by James Catterall, University of California Los Angeles, et al., the analyses show that achievement gaps between high- and low-SES groups appear to be mitigated for children and young adults who have arts-rich backgrounds. 28 pp. March 2012.
<http://www.arts.gov/research/Arts-At-Risk-Youth.pdf>

Research Note #105N – Artists and Art Workers in the United States: Findings from the American Community Survey (2005-2009) and the Quarterly Census of Employment and Wages. This Note uses multiyear averages from the American Community Survey (2005-2009) to enumerate the nation's artists and to describe their

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demographic traits, work patterns, and nationwide concentration. The Note also explores links between individual artist occupations and specific industries, and it reports occupational and industry patterns for workers who obtained arts-related degrees in college. Finally, the Note identifies state and metropolitan-level concentrations of employment within arts industries. October 2011.
<http://www.arts.gov/research/Notes/105.pdf>

Research Note #106N – *An Average Day in the Arts: State Participation Patterns from the American Time Use Survey for 2006-2010*. Using data from the U.S. Department of Labor's Bureau of Labor Statistics American Time Use Survey (ATUS), Note #106 examines state-level arts participation by gauging how Americans spend an average day. June 2012.
<http://www.arts.gov/research/Notes/106.pdf>

NEA Research Convenings and Webinars in FY 2012

Improving Arts Learning through Standards and Assessment: A National Endowment for the Arts Research Roundtable. Hosted a research roundtable, as an opportunity for researchers, educators, and policy-makers to discuss the implications of a nationwide study of arts assessment tools and practices. The Agency webcast the roundtable event, which featured discussion of new NEA report, *Improving the Assessment of Student Learning in the Arts*. February 2012.
<http://arts.gov/research/ArtsLearning/index.html>

Interagency Task Force on the Arts and Human Development. Convened a quarterly series of public webinars to showcase new and emerging research and programs supported by member agencies of the Federal Interagency Task Force on the Arts and Human Development. To date, the NEA has hosted public webinars involving staff and grantees from the National Science Foundation, the Substance Abuse and Mental Health Services Administration, and the Institute of Museum and Library Services. <http://arts.gov/research/TaskForce/2012-webinars.html>

Our Town Community Indicators Study. Hosted a one-hour webinar that describes the progress of designing a system of indicators that becomes the national standard for defining, measuring, and conveying the dimensions of livability affected by creative placemaking. April 2012.
<http://arts.gov/research/OTIndicators/index.html>

The Arts, New Growth Theory, and Economic Development. Co-commissioned a series of papers on "The Arts, New Growth Theory, and Economic Development," which were presented and discussed at a Brookings Institution symposium. The papers will be considered for book publication in FY 2013. May 2012.
<http://arts.gov/research/Brookings/index.html>

Workshop on Research Gaps and Opportunities for Exploring the Relationship between the Arts and Health and Well-Being in Older Adults. With the National Institutes of Health, commissioned a National Academies public workshop and five

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papers on the arts' relationship to health and well-being in older adults, with the aim of identifying gaps to be targeted by future federal research investments. September 2012. <http://arts.gov/research/Older-Adults/index.html>

How Art Works Public Forum. This public forum, hosted by the Arts Management program at American University, explored a commissioned report entitled, *How Arts Works: The National Endowment for the Arts' Five-Year Research Agenda, with a System Map and Measurement Model*, its implications for the NEA's strategy and research, and its resonance or potential for the larger fields of arts, culture, heritage, and humanities. September 2012.

<http://arts.gov/research/How-Art-Works/Sept20-webcast.html>

Research: Art Works Webinar. The NEA held a one-hour *Research: Art Works* guidelines workshop webinar. The *Research: Art Works* category supports research projects to analyze the value and impact of the arts in the United States. September 2012. <http://arts.gov/grants/apply/Research-ArtWorks-webinar.html>

Other NEA Research Projects

During FY 2012, NEA's Office of Research & Analysis began or continued work on a number of other significant projects, among them:

How Art Works. Completed *How Art Works*, a hypothesis-driven model and measurement framework for evaluating the arts' impacts on individuals and communities. This document will be released in the fall of 2012, with key elements integrated with the NEA's five-year Research Agenda.

2012 Survey of Public Participation in the Arts. Conducted the 2012 Survey of Public Participation in the Arts (SPPA), with a largely revised questionnaire that reflects changing demographics, the role of information technology, and a wider variety of arts-engagement forms than has been studied previously.

2012 Survey of Public Participation in the Arts User's Guide and Summary Report. Began work on producing a technical guide to using the 2012 SPPA data and a 30-50 page report and brochure summarizing the study's main findings.

Annual Arts Benchmarking Survey. Designed and piloted an Arts Benchmarking Supplement (ABS), to be used by the NEA as an annual performance measurement of U.S. adult engagement in arts activities and arts education.

The Arts, New Growth Theory, and Economic Development: A Brookings Publication. Revised a series of papers that were presented at a symposium at the Brookings Institution on *The Arts, New Growth Theory, and Economic Development* for publication in a 2013 Brookings volume.

National Children's Study Arts Module. Began work on the design of a module in the National Children's Study that assesses children's engagement in the arts from the

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prenatal stage to 2-3 years. These data will inform future analyses on the music's impact on child and adolescent development.

How the U.S. Funds the Arts. Completed the draft of the third edition of a publication entitled, *How the U.S. Funds the Arts*, detailing the public and private sources of funding for the arts and culture. The publication will be released in November 2012.

Arts and Human Development Literature Search. Organized a subcommittee to conduct a systematic review of scholarly literature on the arts and human development. The subcommittee will continue to meet throughout the course of FY 2013 and will produce a literature review that addresses several areas of interest to subcommittee members, which include eight representatives from various National Institutes of Health agencies.

Audience Impact Pilot Survey. Designed and piloted a NEA grantee audience survey to assess the degree to which live arts audiences report having been "affected" by exhibits or performances. The pilot study will inform development and implementation of the grantee audience surveys that the NEA will be used as a performance measurement tool in FY 2013 and beyond.

Arts and Community Indicators Study. Designed a "first-cut" set of national indicators on the arts' role in the livability of communities. The draft indicators and related metrics and datasets were presented in a public webinar and to the National Council on the Arts, with the goal of further refinement before distribution to the public. Began work on validation of these indicators, which will be completed by the end of FY 2013.

Panel Study of Income Dynamics. ORA has begun analysis of data from a National Science Foundation-supported longitudinal survey that tracks a variety of behaviors – including arts learning, arts participation, arts philanthropy, and arts volunteering – in relation to the well-being of children, adults, and families.

General Social Survey Supplement. In partnership with the National Science Foundation, implemented a module in the 2012 General Social Survey, conducted by NORC at the University of Chicago, which asks adults about motivations and barriers involved in attending live arts performances and/or exhibits.

Arts Research Grants Opportunity. Adjudicated, recommended for funding, and awarded the Agency's first wave of grants in the *Research: Art Works* category. These grants support research on topics including: the arts' cognitive, emotional, and psychological benefits; the arts' relationship to local and national economic growth; and factors critical to the fiscal health, diversity, and sustainability of the nonprofit arts sector.

Arts and Cultural Production Satellite Account. Completed a Memorandum of Understanding with the Bureau of Economic Analysis, U.S. Department of

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Commerce, to create an Arts and Culture Production Satellite Account (ACPSA). Initial estimates will be ready at the end of FY 2013.

Cultural Policy and the Arts National Data Archive (CPANDA). The NEA has started the process of transferring CPANDA – an online data repository for arts and cultural data – to the NEA's website. After the transfer takes place, NEA staff will identify areas for improvement on the website and plan to release a newly developed site in early FY 2014.

Strategic Partnerships

In addition to the activities that NEA's research office undertakes directly and with contractor assistance, in recent years the ORA has established a number of strategic partnerships expected to yield benefits for years to come:

Interagency Task Force on the Arts and Human Development. Collaborating with the U.S. Department of Health & Human Services (Administration for Children & Families, the Administration on Aging, and the National Institutes of Health) and the Department of Education to build national research capacity and evidence-sharing with researchers, practitioners, and the general public. This initiative stemmed from a March 2011 convening held by ORA and featuring HHS Secretary Kathleen Sebelius and other high-ranking HHS officials.

Federal Statistical Agencies. Contributing toward "core" sponsorship of the National Academies' Committee on National Statistics (CNSTAT), to foster a dialogue with roughly 20 Federal statistical agencies about potential partnerships and data-sharing agreements that can benefit arts and cultural researchers, practitioners, and policy-makers.

Cultural Policy Research Network. Developing processes, research questions, and potential members for a national network that will identify research topics and potential studies that may prove critical to the future of cultural policy in the U.S. This goal is supported by an award to NORC at the University of Chicago.

Bureau of Economic Analysis. The BEA will work in partnership with the National Endowment for the Arts (NEA) to develop a national-level arts and cultural production satellite account to provide statistics on production, employment, compensation, and value added of the arts and cultural production-related sectors. Initial estimates will be complete by the end of FY 2013, and an article on these estimates will be published in the *Survey of Current Business* in FY 2014.

Performance Reports

As required by the Government Performance and Results Act of 1993 (GPRA) and the GPRA Modernization Act of 2010, as well as subsequent guidance from OMB on the preparation of performance budgets and reports, the Arts Endowment is submitting performance data for Fiscal Years 2007 through 2012. The data relate to performance goals and indicators contained in applicable Performance Plans for the same period. The tables that follow this narrative compare actual performance as of September 30, 2012 with prior estimates. It is important to consider the following as one examines the tables.

First, we have determined that approximately 24 months must pass after the close of a fiscal year before sufficient information is received to fully assess the accomplishments of that year. The table below shows the trend of final report submissions (excluding grants awarded through the American Recovery and Reinvestment Act of 2009) over the most recent six-year period.

Fiscal Year	# of Months Since Close of Year	# of Months Above or Below 24 Month Benchmark	% of Final Reports Received as of September 30, 2012
2007	60	36	96.9
2008	48	24	96.9
2009	36	12	95.5
2010	24	0	90.6
2011	12	-12	56.0
2012	0	-24	8.5

Second, we rely upon information provided by our applicants and grantees when making projections. Performance projections rely upon information provided by our grantees – reflected in application forms, revised project/budget forms, and final reports. By the time we consider the Performance Report for a given fiscal year to be “final,” all the performance data come from grantee final reports.

Third, eligible applicants to the Arts Endowment have full discretion in choosing the funding area from which to seek support, and in determining the nature of their projects. From year to year, applicant interests may change from one area to another or from one type of project to another, thus adding to the challenge of making reliable estimates.

Beginning on the next page is a set of tables with the most current performance data for Fiscal Years 2007 through 2012.

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GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)	SELECTED PERFORMANCE MEASURES (INDICATORS)	FY 2007 Final Projections with FY 2007 PAR (Performance as of 9-30-07; 14% of Final Reports Received)			FY 2007 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 97% of Final Reports Received)			Difference		
		# of Awards	\$	Target Levels	# of Awards	\$	Current Levels	# of Awards	\$	Extent of Activity
Dollars rounded to the nearest thousand.										
1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans.		1,902	\$ 49,659		1,902	\$ 49,659		0	\$ -	
a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work.	<i>The number of projects whose primary purpose is to create or present art.</i>			1,000-1,250			1,035			on target
	<i>The number of artists participating in projects whose primary purpose is to create art.</i>			75,000-100,000			214,000			above
b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities.	<i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i>			30-35 m			22.8 m			below
c. The arts contribute to the strengthening of communities.	<i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i>			175-225			177			on target
d. Artistic works & cultural traditions are preserved.	<i>The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.</i>			150-200			203			above
e. Organizations enhance their ability to achieve their artistic & public service goals.	<i>The number of projects whose primary purpose is to assist organizations to enhance their abilities to achieve their artistic & public service goals.</i>			225-275			272			on target
2. LEARNING IN THE ARTS: Advance arts education for children and youth.		208	\$ 10,251		208	\$ 10,251		0	\$ -	
a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i>			200-225			203			on target
	<i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i>			.25-.5 m			.6 m			above
b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i>			3			1			below
c. National, State, and local entities demonstrate a commitment to arts learning for children & youth, consistent with national, state, or local arts education standards.	<i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i>			6			3			below

**National Endowment for the Arts
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GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)		SELECTED PERFORMANCE MEASURES (INDICATORS)		FY 2007 Final Projections with FY 2007 PAR (Performance as of 9-30-07; 14% of Final Reports Received)		FY 2007 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 97% of Final Reports Received)		Difference				
Dollars rounded to the nearest thousand.				# of Awards	\$	Target Levels	# of Awards	\$	Current Levels	# of Awards	\$	Extent of Activity
3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts.												
State Partnerships												
State & Regional					\$ 23,162			\$ 23,162			\$ -	
Underserved Set-Aside					\$ 6,227			\$ 6,227			\$ -	
Challenge America					\$ 6,998			\$ 6,998			\$ -	
National Initiatives					\$ 3,941			\$ 3,941			\$ -	
Subtotal State Partnerships					\$ 40,328			\$ 40,328			\$ -	
Other Public & Private Partnerships					\$ 474			\$ 474			\$ -	
Total Partnerships for the Arts				83	\$ 40,802		83	\$ 40,802		0	\$ -	
a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.		The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.		1,800-2,000			1,933			on target		
b. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment.		The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.		10-15			15			on target		
GRAND TOTAL GRANTMAKING FUNDS (Obligations, excluding Interagency and Gift funds.)				2,193	\$ 100,712		2,193	\$ 100,712		0	\$ -	
Cross-Cutting Indicators		The amount of matching funds reported by Arts Endowment grantees.		500-550 m			513 m			on target		
		The number of distinct communities directly benefiting from Arts Endowment-funded projects.		3,750-4,000			2,950			below		

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<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2008 Final Projections with FY 2008 PAR (Performance as of 9-30-08; 14% of Final Reports Received)</u>			<u>FY 2008 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 97% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans.		1,941	\$ 60,840		1,941	\$ 60,840		0	\$ -	
a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work.	<i>The number of projects whose primary purpose is to create or present art.</i>	1,050-1,300			1,082			on target		
	<i>The number of artists participating in projects whose primary purpose is to create art.</i>	75,000-100,000			263,000			above		
b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities.	<i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i>	40-50 m			31 m			below		
c. The arts contribute to the strengthening of communities.	<i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i>	200-250			181			below		
d. Artistic works & cultural traditions are preserved.	<i>The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.</i>	160-200			184			on target		
e. Organizations enhance their ability to achieve their artistic & public service goals.	<i>The number of projects whose primary purpose is to assist organizations to enhance their abilities to achieve their artistic & public service goals.</i>	225-275			267			on target		
2. LEARNING IN THE ARTS: Advance arts education for children and youth.		222	\$ 12,808		222	\$ 12,808		0	\$ -	
a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	225-250			201			below		
	<i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	.5-1.5 m			.7 m			on target		
b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i>	5-10			19			above		
c. National, State, and local entities demonstrate a commitment to arts learning for children & youth, consistent with national, state, or local arts education standards.	<i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i>	2-5			5			on target		

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<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2008 Final Projections with FY 2008 PAR (Performance as of 9-30-08; 14% of Final Reports Received)</u>			<u>FY 2008 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 97% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts.										
State Partnerships										
State & Regional			\$ 39,415			\$ 39,415			\$ -	
Underserved Set-Aside			\$ 8,481			\$ 8,481			\$ -	
Subtotal State Partnerships			\$ 47,896			\$ 47,896			\$ -	
Other Public & Private Partnerships			\$ 222			\$ 222			\$ -	
Total Partnerships for the Arts		82	\$ 48,118		82	\$ 48,118			\$ -	
a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.	The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.	2,000-2,250			1,691			below		
b. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment.	The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.	5-10			12			above		
GRAND TOTAL GRANTMAKING FUNDS (Obligations, excluding Interagency and Gift funds.)		2,245	\$ 121,766		2,245	\$ 121,766		0	\$ -	
Cross-Cutting Indicators	The amount of matching funds reported by Arts Endowment grantees.	600-650 m			589 m			below		
	The number of distinct communities directly benefiting from Arts Endowment-funded projects.	4,000-4,500			3,400			below		

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<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2009 Final Projections with FY 2009 PAR (Performance as of 9-30-09; 13% of Final Reports Received)</u>			<u>FY 2009 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 96% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans.		2,106	\$ 59,693		2,106	\$ 59,693		0	\$ -	
a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work.	<i>The number of projects whose primary purpose is to create or present art.</i>	1,050-1,300			1,119			on target		
	<i>The number of artists participating in projects whose primary purpose is to create art.</i>	75,000-100,000			147,000			above		
b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities.	<i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i>	40-50 m			21.4			below		
c. The arts contribute to the strengthening of communities.	<i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i>	200-250			207			on target		
d. Artistic works & cultural traditions are preserved.	<i>The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.</i>	160-200			220			above		
e. Organizations enhance their ability to achieve their artistic & public service goals.	<i>The number of projects whose primary purpose is to assist organizations to enhance their abilities to achieve their artistic & public service goals..</i>	350-450			322			below		
2. LEARNING IN THE ARTS: Advance arts education for children and youth.		218	\$ 12,918		218	\$ 12,918		0	\$ -	
a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	225-250			184			below		
	<i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	.5-1.5 m			.3 m			below		
b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i>	5-10			26			above		
c. National, State, and local entities demonstrate a commitment to arts learning for children & youth, consistent with national, state, or local arts education standards.	<i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i>	2-5			3			on target		

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<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2009 Final Projections with FY 2009 PAR (Performance as of 9-30-09; 13% of Final Reports Received)</u>			<u>FY 2009 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 96% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts.										
State Partnerships										
State & Regional			\$ 41,622			\$ 41,622			\$ -	
Underserved Set-Aside			\$ 8,894			\$ 8,894			\$ -	
Subtotal State Partnerships			\$ 50,516			\$ 50,516			\$ -	
Other Public & Private Partnerships			\$ 257			\$ 257			\$ -	
Total Partnerships for the Arts		80	\$ 50,773		80	\$ 50,773		0	\$ -	
a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.	The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.	2,000-2,500			1,973			below		
b. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment.	The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.	5-10			12			above		
GRAND TOTAL GRANTMAKING FUNDS		2,404	\$ 123,384		2,404	\$ 123,384		0	\$ -	
Cross-Cutting Indicators	The amount of matching funds reported by Arts Endowment grantees.	625-675 m			603 m			below		
	The number of distinct communities directly benefiting from Arts Endowment-funded projects.	4,000-4,500			4,100			on target		

**National Endowment for the Arts
FY 2010 PERFORMANCE REPORT
September 2012**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2010 Final Projections with FY 2010 PAR (Performance as of 9-30-10; 10% of Final Reports Received)</u>			<u>FY 2010 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 91% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans.		2,326	\$ 68,731		2,326	\$ 68,731		0	\$ -	
a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work.	<i>The number of projects whose primary purpose is to create or present art.</i>	1,150-1,250			1,195			on target		
	<i>The number of artists participating in projects whose primary purpose is to create art.</i>	100,000-150,000			147,000			on target		
b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities.	<i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i>	40-45 m			35 m			below		
c. The arts contribute to the strengthening of communities.	<i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i>	200-250			281			above		
d. Artistic works & cultural traditions are preserved.	<i>The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.</i>	190-200			235			above		
e. Organizations enhance their ability to achieve their artistic & public service goals.	<i>The number of projects whose primary purpose is to assist organizations to enhance their abilities to achieve their artistic & public service goals..</i>	300-350			331			on target		
2. LEARNING IN THE ARTS: Advance arts education for children and youth.		363	\$ 14,413		363	\$ 14,413		0	\$ -	
a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	185-215			305			above		
	<i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	.3-.6 m			.6 m			on target		
b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i>	15-25			49			above		
c. National, State, and local entities demonstrate a commitment to arts learning for children & youth, consistent with national, state, or local arts education standards.	<i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i>	2-5			4			on target		

**National Endowment for the Arts
FY 2010 PERFORMANCE REPORT
September 2012**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2010 Final Projections with FY 2010 PAR (Performance as of 9-30-10; 10% of Final Reports Received)</u>			<u>FY 2010 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 91% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts.										
State Partnerships										
State & Regional			\$ 42,913			\$ 42,913			\$ -	
Underserved Set-Aside			\$ 12,442			\$ 12,442			\$ -	
Subtotal State Partnerships			\$ 55,355			\$ 55,355			\$ -	
Other Public & Private Partnerships			\$ -			\$ -			\$ -	
Total Partnerships for the Arts		65	\$ 55,355		65	\$ 55,355		0	\$ -	
a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.	The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.	2,000-2,500			1,901			below		
b. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment.	The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.	10-15			15			on target		
GRAND TOTAL GRANTMAKING FUNDS		2,754	\$ 138,499		2,754	\$ 138,499		0	\$ -	
Cross-Cutting Indicators	The amount of matching funds reported by Arts Endowment grantees.	600-650 m			653 m			above		
	The number of distinct communities directly benefiting from Arts Endowment-funded projects.	3,600-4,000			2,600			below		

**National Endowment for the Arts
FY 2011 PERFORMANCE REPORT
September 2012**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2011 Final Projections with FY 2011 PAR (Performance as of 9-30-11; 13% of Final Reports Received)</u>			<u>FY 2011 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 56% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans.		2,035	\$ 68,915		2,035	\$ 68,915			\$ -	
a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work.	<i>The number of projects whose primary purpose is to create or present art.</i>	1,050-1,150			1,043			below		
	<i>The number of artists participating in projects whose primary purpose is to create art.</i>	95,000-105,000			151,000			above		
b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities.	<i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i>	40-45 m			37.3			below		
c. The arts contribute to the strengthening of communities.	<i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i>	200-250			270			above		
d. Artistic works & cultural traditions are preserved.	<i>The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.</i>	190-200			205			above		
e. Organizations enhance their ability to achieve their artistic & public service goals.	<i>The number of projects whose primary purpose is to assist organizations to enhance their abilities to achieve their artistic & public service goals..</i>	300-350			299			below		
2. LEARNING IN THE ARTS: Advance arts education for children and youth.		368	\$ 13,495		368	\$ 13,495			\$ -	
a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	180-210			330			above		
	<i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	.3-.6 m			.9 m			above		
b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i>	15-25			32			above		
c. National, State, and local entities demonstrate a commitment to arts learning for children & youth, consistent with national, state, or local arts education standards.	<i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i>	1-3			3			on target		

**National Endowment for the Arts
FY 2011 PERFORMANCE REPORT
September 2012**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2011 Final Projections with FY 2011 PAR (Performance as of 9-30-11; 13% of Final Reports Received)</u>			<u>FY 2011 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 56% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts.										
State Partnerships										
State & Regional			\$ 38,950			\$ 38,950			\$ -	
Underserved Set-Aside			\$ 10,568			\$ 10,568			\$ -	
Subtotal State Partnerships			\$ 49,518			\$ 49,518			\$ -	
Other Public & Private Partnerships									\$ -	
Total Partnerships for the Arts		64	\$ 49,518		64	\$ 49,518		0	\$ -	
a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.	The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.	2,000-2,500			1,949			below		
b. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment.	The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.	10-15			15			on target		
GRAND TOTAL GRANTMAKING FUNDS		2,467	\$ 131,928		2,467	\$ 131,928			\$ -	
Cross-Cutting Indicators	The amount of matching funds reported by Arts Endowment grantees.	600-650 m			600 m			on target		
	The number of distinct communities directly benefiting from Arts Endowment-funded projects.	3,500-4,000			2,000			below		

**National Endowment for the Arts
FY 2012 PERFORMANCE REPORT
September 2012**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2012 Projections Based on FY 2012 NEA Budget Request</u>			<u>FY 2012 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 9% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
1. Creation of art that meets the highest standards of excellence.		400-500	\$ 11,167		412	\$ 11,072			\$ (95)	
	<i>The number of artworks created for the purpose of expanding the American portfolio of art.</i>	200-300			400-500			above		
	<i>The number of concerts and performances conducted for the purpose of expanding the American portfolio of art.</i>	1,000-1,500			2,500-3,500			above		
	<i>The number of artists compensated, in whole or in part, from the project budget.</i>	8,000-10,000			8,000-10,000			on target		
2: To engage the public with diverse and excellent art		1,700-1,900	\$ 53,841		1,750	\$ 53,731			\$ (110)	
Engagement: Americans throughout the nation experience art.	<i>The number of individuals directly benefiting from projects intended to increase Americans' engagement with art.</i>	40-50 m			50 m			on target		
	<i>Number of distinct communities benefiting from projects intended to increase Americans' engagement with art.</i>	1,000-1,200			1,150			on target		
Learning: Americans of all ages acquire knowledge or skills in the arts.	<i>The number of projects whose primary purpose is to provide opportunities for learning in the arts.</i>	450-500			469			on target		
	<i>The number of individuals benefiting from projects that provided opportunities for learning in the arts.</i>	10-11 m			10.1 m			on target		
	<i>The number of children & youth benefiting from projects that provided opportunities for learning in the arts.</i>	7-8 m			8.4 m			above		
Livability: American communities are strengthened through the arts.	<i>Number of distinct communities benefiting from projects intended to improve livability.</i>	200-300			160			below		
	<i>The number of individuals compensated, in whole or in part, from projects intended to improve livability.</i>	2,000-3,000			2,300			on target		

**National Endowment for the Arts
FY 2012 PERFORMANCE REPORT
September 2012**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2012 Projections Based on FY 2012 NEA Budget Request</u>			<u>FY 2012 Current Performance with FY 2012 PAR (Performance as of 9-30-12; 9% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
3. To promote public understanding about the contributions of the arts										
<i>State Partnerships</i>										
State & Regional			\$ 36,797			\$ 36,666			\$ (131)	
Underserved Set-Aside			\$ 9,879			\$ 9,879			\$ -	
Subtotal State Partnerships			\$ 46,676			\$ 46,545			\$ (131)	
<i>Other Public & Private Partnerships</i>			\$ 2,490			\$ 2,472			\$ (18)	
Research Funding			\$ 1,852			\$ 1,826			\$ (26)	
International Activities			\$ 753			\$ 753			\$ -	
Total for Goal 3		83	\$ 51,771		83	\$ 51,596		0	\$ (175)	
a. Federal agency partners & partnerships include the arts in their program planning.	<i>The number of Federal agency partners that include the arts in their program planning.</i>	15-20			16			on target		
b. Partnerships promote American art & artists internationally or bring art & artists from other countries to U.S. audiences.	<i>The number of partnerships formed to promote American art and artists internationally or bring art and artists from other countries to U.S. audiences.</i>	5-7			6			on target		
	<i>The number of countries reached through NEA funded projects.</i>	30-35			45			above		
GRAND TOTAL GRANTMAKING FUNDS		2,137	\$ 116,779		2,245	\$ 116,399		108	\$ (380)	
Cross-Cutting Indicators	<i>The amount of matching funds reported by Arts Endowment grantees.</i>	550-600 m			543 m			below		
	<i>The number of distinct communities directly benefiting from Arts Endowment-funded projects.</i>	2,000-2,500			1,800			below		
	<i>The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.</i>	1,700-2,000			1,950			on target		

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Fiscal Year 2012 Performance and Accountability Report ~ A Message from the Director of Finance ~

I am pleased to join with Chairman Landesman in presenting the National Endowment for the Arts' *Fiscal Year 2012 Performance and Accountability Report*. This report summarizes the Arts Endowment's performance and accomplishments – programmatically, financially, and operationally – during the past year.

Fiscal Year 2012 saw no significant changes or issues in the Agency's financial systems and operations. Through a cross-servicing agreement with the U.S. Department of Transportation (DOT), the NEA uses a Federal financial system (Oracle-based Delphi) that is fully compliant with the requirements of the Office of Management and Budget's Office of Federal Financial Management. All FY 2012 transactions were recorded in the system. We continue to improve our facility with the Delphi system, and have updated crosswalks to the financial statements to adapt to the Agency's new strategic plan and regulatory changes. In addition, we collaborate with other agencies supported by DOT in anticipation of DOT's anticipated upgrade to the Federalized Version of Oracle 12i. The main emphasis in FY 2013 is the ongoing global vendor cleanup efforts that will allow a better transition to the new version.

Our financial statements independent audit has been successfully completed, resulting for the tenth consecutive year in an unqualified opinion. The audit revealed no material weaknesses.

During Fiscal Year 2013, we will continue to enhance reporting systems, implement succession planning, ensure adherence to all applicable guidance, and optimize efficiencies through improved use of technology. In addition, we will continue to take steps toward eventual transition to an electronic payment system and to develop a new Cloud-based grants management system jointly with the National Endowment for the Humanities, which will include integration with our finance system where relevant. We are confident that our finance system supports the Agency's ongoing commitment to ensuring that we are fully accountable for the funds that have been entrusted to us for the benefit of the American people.

A handwritten signature in black ink, reading "Sandra L. Stueckler", written over a horizontal line.

Sandra L. Stueckler
Director of Finance

November 8, 2012

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***Financial Statements
and Related Auditor's Report
Fiscal Year 2012***

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National Endowment for the Arts
Audit of Financial Statements

As of and for the Years Ended
September 30, 2012 and 2011

Submitted By

Leon Snead & Company, P.C.
Certified Public Accountants & Management Consultants

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Inspector General, National Endowment for the Arts
Chairman, National Endowment for the Arts

Independent Auditor's Report

We have audited the balance sheets of the Arts Endowment as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, and budgetary resources (the financial statements) for the years then ended. The objective of our audit was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the Arts Endowment's internal control over financial reporting and tested the Arts Endowment's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that the Arts Endowment's financial statements as of and for the years ended September 30, 2012 and 2011, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified no material weaknesses in financial reporting. We noted one significant deficiency in internal control related to the Arts Endowment's method for allocating indirect costs in its Statement of Net Cost.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements* (as amended).

The following sections discuss in more detail our opinion on the Arts Endowment's financial statements, our consideration of the Arts Endowment's internal control over financial reporting, our tests of the Arts Endowment's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the Arts Endowment as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, and budgetary resources of the Arts Endowment as of and for the years ended September 30, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1R to the financial statements, in 2012 the Arts Endowment changed its presentation of the Statement of Net Cost and its method of allocating costs to the programs presented therein.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The performance measures, Summary of Management Challenges, Summary of Financial Statement Audit and Management Assurances, and reporting details related to the Improper Payments Improvement Act, as amended by the Improper Payments Elimination and Recovery Act, are presented for the purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

RESPONSIBILITIES

Management Responsibilities

Management of the Arts Endowment is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers Financial Integrity Act (FMFIA) are met; and (3)

complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditor Responsibilities

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements* (as amended). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the Arts Endowment's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04 (as amended) and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. Our procedures were not designed to provide an opinion on internal control over financial reporting. Consequently, we do not express an opinion thereon.

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 07-04 (as amended). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Arts Endowment. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Arts Endowment as of and for the years ended September 30, 2012 and 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Arts Endowment's internal control over financial reporting (internal control) as a basis for designing our

auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Arts Endowment's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arts Endowment's internal control.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance of the Arts Endowment.

Our consideration of internal control was for the limited purpose described in the first paragraph in this section of the report and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above; however, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

1. The Arts Endowment's cost allocation methodology did not ensure that costs were allocated across all programs in the Statement of Net Cost for the nine months ended June 30, 2012.

Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts*, paragraph 71 states:

Regardless of whether a reporting entity uses a cost accounting system or cost finding techniques, the methods and procedures followed should be designed to perform at least a certain minimum level of cost accounting and provide a basic amount of cost.... Each reporting entity should measure the full cost of outputs so that total operational costs and total unit costs of outputs can be determined.

When developing its cost allocation methodology, the Arts Endowment determined that most of its costs were associated with activities related to soliciting, evaluating, and awarding grants to meet its strategic goals. Therefore, the cost allocation methodology measured the percentage of applications received under each strategic goal during a given fiscal year and applied those percentages to allocate to the goals the indirect costs incurred in the following year when the grantees actually began to spend the grant funds.

The Arts Endowment implemented a new strategic plan for fiscal years 2012 through 2016. Under the new strategic plan, Arts Endowment defined goals related to Arts Creation, Engagement with the Arts, and Contribution of the Arts. During 2011, the solicitations and evaluations of grant applications were conducted for 2012 grants being awarded under the new goals. Therefore, the cost allocation methodology applied in the

June 30, 2012 financial statements allocated all indirect costs to the goals of the new strategic plan.

The Arts Endowment determined that the nature and emphasis of the new goals were sufficiently different from the goals reported under the previous strategic plan (Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts) that the new goals could not be combined with or mapped to the old goals in the Statement of Net Cost. Thus, the Arts Endowment reported costs related to its old goals separately from the costs of the new goals. Because the cost allocation methodology only allocated indirect costs to the new goals, the costs of the old goals as reported in the Statement of Net Cost included only direct costs. However, during fiscal year 2012, Arts Endowment continued to make payments to the recipients of grants awarded under the old goals, monitor the performance of those grantees, closeout existing grants, and perform other activities (including OIG audits and evaluations). The cost allocation methodology did not take into account how the indirect costs associated with those activities related to the old goals.

The gross costs for Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts line items reported on the Statement of Net Cost for the nine months ended June 30, 2012, were understated by the amount of any indirect costs associated with those program goals. If the Arts Endowment had not adjusted its cost methodology, we estimate that the total of the gross costs of the Arts Creation, Engagement with the Arts, and Contribution of the Arts programs could have overstated the gross costs of the new goals and understated the gross costs of the old goals by approximately \$1 million for the year ended September 30, 2012.

The issue pertained only to the presentation of the gross cost line items under each goal. The Net Cost of Operations line item on the Statement of Net Cost equaled the Arts Endowment's total gross costs, net of total earned revenues, for the nine months ended June 30, 2012, and was unaffected by the issue with the cost allocation methodology.

Recommendation

We recommended that NEA modify its cost allocation methodology to ensure that the indirect costs associated with the discontinued program goals are considered in its allocation of indirect costs to programs.

Management Response

NEA concurred that the original cost allocation approach applied indirect costs only to goals where new grants were being issued and did not properly allocate a portion of those costs to the older strategic goals to account for payment and other follow-up actions. The Arts Endowment created a new methodology that more appropriately allocates the indirect costs based on activity related to both awarding grants in the current year and following up on older grants. The methodology was implemented in September 2012.

Auditor's Comment

Audit procedures we conducted on the Statement of Net Cost for the year ended September 30, 2012 included tests of the Arts Endowment's revised methodology for allocating indirect costs to both the old and the new goals. The corrective actions taken by the Arts Endowment were sufficiently effective to result in the unmodified opinion on the financial statements taken as a whole reported under the caption "Opinion on the Financial Statements" on page 2 of our report.

COMPLIANCE WITH LAWS AND REGULATIONS

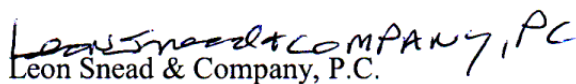
The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04 (as amended).

AGENCY COMMENTS AND AUDITOR EVALUATION

In commenting on the draft of this report, the management of Arts Endowment concurred with the facts and conclusions in our report. A copy of management's response, which includes discussion of actions planned or taken to correct the reported deficiencies, accompanies this report.

DISTRIBUTION

This report is intended solely for the information and use of the management, the Chairman, the Senior Deputy Chairman, the Office of Inspector General, and others within the Arts Endowment, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.


Leon Snead & Company, P.C.

November 8, 2012

National Endowment for the Arts
BALANCE SHEET
As of September 30, 2012 and 2011
(In Dollars)

	September 30, 2012			September 30, 2011 (Restated)		
ASSETS (Notes 2-6):	All Other	Earmarked Funds	Cumulative	All Other	Earmarked Funds	Cumulative
Intragovernmental:						
Fund Balance With Treasury (Note 2)	\$ 146,123,230	\$ 2,505,426	\$ 148,628,656	\$ 155,168,055	\$ 1,535,232	\$ 156,703,287
Investments (Note 3)	-	-	-	-	842,086	842,086
Accounts Receivable (Note 4)	-	-	-	525	-	525
Other Assets (Note 6)	394,607	55,510	450,117	762,993	-	762,993
Total Intragovernmental	\$ 146,517,837	\$ 2,560,936	\$ 149,078,773	\$ 155,931,573	\$ 2,377,318	\$ 158,308,891
Assets with the Public:						
Accounts Receivable, Net (Note 4)	\$ 31,250	\$ -	\$ 31,250	\$ 36,250	\$ -	\$ 36,250
General Property, Plant and Equipment, Net (Note 5)	195,881	-	195,881	-	-	-
Other Assets (Note 6)	2,750	-	2,750	-	-	-
TOTAL ASSETS	\$ 146,747,718	\$ 2,560,936	\$ 149,308,654	\$ 155,967,823	\$ 2,377,318	\$ 158,345,141
LIABILITIES (Notes 7,8):						
Intragovernmental:						
Accounts Payable (Note 8)	\$ 1,025,925	\$ -	\$ 1,025,925	\$ 1,360,228	\$ -	\$ 1,360,228
Total Intragovernmental	\$ 1,025,925	\$ -	\$ 1,025,925	\$ 1,360,228	\$ -	\$ 1,360,228
With the Public:						
Accrued Liabilities (Note 8)	\$ 48,680,544	\$ 59,464	\$ 48,740,008	\$ 45,029,996	\$ 5,762	\$ 45,035,758
Other (Note 8)	2,354,341	-	2,354,341	2,718,215	1,160	2,719,375
TOTAL LIABILITIES	\$ 52,060,810	\$ 59,464	\$ 52,120,274	\$ 49,108,439	\$ 6,922	\$ 49,115,361
Commitments and Contingencies (Note 10)						
NET POSITION:						
Unexpended Appropriations	\$ 96,974,607	\$ -	\$ 96,974,607	\$ 110,005,052	\$ -	\$ 110,005,052
Cumulative Results of Operations	(2,287,699)	2,501,472	213,773	(3,145,668)	2,370,396	(775,272)
TOTAL NET POSITION	\$ 94,686,908	\$ 2,501,472	\$ 97,188,380	\$ 106,859,384	\$ 2,370,396	\$ 109,229,780
TOTAL LIABILITIES AND NET POSITION	\$ 146,747,718	\$ 2,560,936	\$ 149,308,654	\$ 155,967,823	\$ 2,377,318	\$ 158,345,141

The accompanying notes are an integral part of these statements

National Endowment for the Arts
STATEMENT OF NET COST
For the Years Ended September 30, 2012 and September 30, 2011
(In Dollars)

	<u>2012</u>	<u>2011</u>
Program Costs (Note 12):		
Access to Artistic Excellence:		
Gross Costs	\$ 37,495,146	\$ 92,410,965
Less: Earned Revenue	<u>(1,518,231)</u>	<u>(2,132,762)</u>
Net Access to Artistic Excellence Costs	\$ 35,976,915	\$ 90,278,203
Learning in the Arts:		
Gross Costs	\$ 9,912,285	\$ 20,239,275
Less: Earned Revenue	<u>(462,965)</u>	<u>(120,469)</u>
Net Learning in the Arts Costs	\$ 9,449,320	\$ 20,118,806
Partnerships for the Arts:		
Gross Costs	\$ 41,379,165	\$ 54,297,547
Less: Earned Revenue	<u>-</u>	<u>(1,346)</u>
Net Partnerships for the Arts Costs	\$ 41,379,165	\$ 54,296,201
Arts Creation:		
Gross Costs	\$ 18,734,038	\$ -
Less: Earned Revenue	<u>(26,950)</u>	<u>-</u>
Net Arts Creation Costs	\$ 18,707,088	\$ -
Engagement with the Arts:		
Gross Costs	\$ 41,917,608	\$ -
Less: Earned Revenue	<u>(116,927)</u>	<u>-</u>
Net Engagement with the Arts Costs	\$ 41,800,681	\$ -
Contribution of the Arts:		
Gross Costs	\$ 12,608,678	\$ -
Less: Earned Revenue	<u>(793)</u>	<u>-</u>
Net Contribution of the Arts Costs	\$ 12,607,885	\$ -
 Total Program Costs	 \$ 159,921,054	 \$ 164,693,210
 Net Cost of Operations	 <u><u>\$ 159,921,054</u></u>	 <u><u>\$ 164,693,210</u></u>

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2012 and 2011
(In Dollars)

	FY 2012			FY 2011		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning Balances	<u>\$ 2,370,396</u>	<u>\$ (3,145,668)</u>	<u>\$ (775,272)</u>	<u>\$ 2,641,116</u>	<u>\$ (3,140,359)</u>	<u>\$ (499,243)</u>
Adjusted Beginning Balances	\$ 2,370,396	\$ (3,145,668)	\$ (775,272)	\$ 2,641,116	\$ (3,140,359)	\$ (499,243)
Budgetary Financing Sources:						
Appropriations Used		\$ 159,051,437	\$ 159,051,437		\$ 162,221,600	\$ 162,221,600
Non-Exchange Revenue	420	-	420	1,421	-	1,421
Donations	623,308	-	623,308	550,214	-	550,214
Other Financing Sources (Non-Exchange)						
Imputed financing	<u>-</u>	<u>1,234,934</u>	<u>1,234,934</u>	<u>-</u>	<u>1,643,947</u>	<u>1,643,947</u>
Total Financing Sources	\$ 623,728	\$ 160,286,371	\$ 160,910,099	\$ 551,635	\$ 163,865,547	\$ 164,417,182
Net Cost of Operations	<u>492,652</u>	<u>159,428,402</u>	<u>159,921,054</u>	<u>822,354</u>	<u>163,870,856</u>	<u>164,693,210</u>
Net Change	\$ 131,076	\$ 857,969	\$ 989,045	\$ (270,719)	\$ (5,309)	\$ (276,028)
Cumulative Results of Operations	\$ 2,501,472	\$ (2,287,699)	\$ 213,773	\$ 2,370,396	\$ (3,145,668)	\$ (775,272)
Unexpended Appropriations:						
Beginning Balances		<u>\$ 110,005,052</u>	<u>\$ 110,005,052</u>		<u>\$ 117,536,652</u>	<u>\$ 117,536,652</u>
Adjusted Beginning Balances		\$ 110,005,052	\$ 110,005,052		\$ 117,536,652	\$ 117,536,652
Budgetary Financing Sources:						
Appropriations Received		\$ 146,255,000	\$ 146,255,000		\$ 155,000,000	\$ 155,000,000
Other Adjustments		(234,008)	(234,008)		(310,000)	(310,000)
Appropriations Used		<u>(159,051,437)</u>	<u>(159,051,437)</u>		<u>(162,221,600)</u>	<u>(162,221,600)</u>
Total Budgetary Financing Sources		\$ (13,030,445)	\$ (13,030,445)		\$ (7,531,600)	\$ (7,531,600)
Total Unexpended Appropriations	<u></u>	<u>\$ 96,974,607</u>	<u>\$ 96,974,607</u>	<u></u>	<u>\$ 110,005,052</u>	<u>\$ 110,005,052</u>
Net Position	<u>\$ 2,501,472</u>	<u>\$ 94,686,908</u>	<u>\$ 97,188,380</u>	<u>\$ 2,370,396</u>	<u>\$ 106,859,384</u>	<u>\$ 109,229,780</u>

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2012 and September 30, 2011
(In Dollars)

	<u>2012</u>	<u>2011</u>
BUDGETARY RESOURCES		
Unobligated Balance Brought Forward, Oct 1	\$ 11,139,844	\$ 13,643,609
Unobligated Balance Brought Forward, Oct 1, as Adjusted	\$ 11,139,844	\$ 13,643,609
Recoveries of Prior Year Unpaid Obligations	1,145,554	4,376,659
Unobligated Balance from Prior Year Budget Authority, Net	<u>\$ 12,285,398</u>	<u>\$ 18,020,268</u>
Appropriations (discretionary and mandatory)	\$ 146,645,657	\$ 155,240,959
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,248,823	3,118,769
TOTAL BUDGETARY RESOURCES	<u><u>\$ 160,179,878</u></u>	<u><u>\$ 176,379,996</u></u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred (Note 13)	\$ 147,249,891	\$ 165,240,151
Unobligated Balance, End of Year:		
Apportioned	12,910,898	11,122,145
Unapportioned	19,089	17,700
Total Unobligated Balance, End of Year	<u>\$ 12,929,987</u>	<u>\$ 11,139,845</u>
TOTAL BUDGETARY RESOURCES	<u><u>\$ 160,179,878</u></u>	<u><u>\$ 176,379,996</u></u>
CHANGE IN OBLIGATED BALANCE:		
Unpaid Obligations, Brought Forward, Oct 1	\$ 148,918,202	\$ 164,244,806
Uncollected Customer Payments from Federal Sources, Brought Forward, Oct 1	<u>(2,513,610)</u>	<u>(1,989,123)</u>
Obligated Balance, Start of Year (Net), Before Adjustments	<u>\$ 146,404,592</u>	<u>\$ 162,255,683</u>
Obligated Balance, Start of Year (Net), as Adjusted	\$ 146,404,592	\$ 162,255,683
Obligations Incurred	\$ 147,249,891	\$ 165,240,151
Outlays (Gross)	(157,507,586)	(176,190,096)
Change in Uncollected Customer Payments from Federal Sources	697,327	(524,487)
Recoveries of Prior Year Unpaid Obligations	(1,145,554)	(4,376,659)
Obligated Balance, End of Year:		
Unpaid Obligations, End of Year (Gross)	137,514,952	148,918,202
Uncollected Customer Payments from Federal Sources, End of Year	<u>(1,816,283)</u>	<u>(2,513,610)</u>
Obligated Balance, End of Year (Net)	<u>\$ 135,698,669</u>	<u>\$ 146,404,592</u>
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget Authority, Gross (discretionary and mandatory)	\$ 147,894,480	\$ 158,359,727
Actual Offsetting Collections (discretionary and mandatory)	(1,946,150)	\$ (2,594,282)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	697,327	(524,487)
Budget Authority, Net (discretionary and mandatory)	<u>\$ 146,645,657</u>	<u>\$ 155,240,959</u>
Outlays, Gross (discretionary and mandatory)	\$ 157,507,586	\$ 176,190,096
Actual Offsetting Collections (discretionary and mandatory)	(1,946,150)	\$ (2,594,281)
Outlays, Net (discretionary and mandatory)	<u>\$ 155,561,436</u>	<u>\$ 173,595,815</u>
Distributed Offsetting Receipts	(627,004)	(554,034)
Agency Outlays, Net (discretionary and mandatory)	<u><u>\$ 154,934,432</u></u>	<u><u>\$ 173,041,781</u></u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

The following footnotes and instructions include the disclosure requirements contained in the Statements of Federal Financial Accounting Standards (SFFAS).

NOTE 1. Significant Accounting Policies:

A. Reporting Entity

The National Endowment for the Arts (NEA) is an independent Federal agency whose mission is to advance artistic excellence, creativity, and innovation for the benefit of individuals and communities. The NEA was established as a result of the National Foundation on the Arts and the Humanities Act of 1965.

B. Basis of Presentation

These statements were prepared from the books and records of the NEA in conformity with accounting principles generally accepted in the United States, and the OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), Revised August 3, 2012, which supersedes:

- OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), dated October 27, 2011.
- M-06-27 *Fiscal Year 2006 Year-end Accounting Guidance for Earmarked Funds* (September 22, 2006), located at <http://www.whitehouse.gov/omb/memoranda/fy2006/m06-27.pdf>.
- *Future External Reporting Changes* (December 21, 2001), located at http://www.whitehouse.gov/omb/financial/year_end_reporting_2001.pdf.
- *Requirements for Accountability of Tax Dollars Act* (December 6, 2002), located at http://www.whitehouse.gov/omb/financial/accountability_of_tax_dollars.pdf.
- M-04-20 FY 2004 *Performance and Accountability Reports and Reporting Requirements for the Financial Report of the United States Government* (July 22, 2004), located at <http://www.whitehouse.gov/omb/memoranda/fy04/m04-20.pdf>.
- Memorandum FY 2002 *Financial and Performance Reporting*, dated October 18, 2002.
- Bulletin 01-09 *Form and Content of Agency Financial Statements*, revised September 25, 2001.

The statements consist of the: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Footnotes. These financial statements have been prepared to report the financial position and results of operations of the NEA.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 1. Significant Accounting Policies (Continued):

C. Basis of Accounting

Transactions are recorded on a budgetary basis, with large categories such as payroll and grant liabilities recorded on an accrual basis. Under the accrual method, expenses are recognized when liabilities are incurred and revenues are recognized when earned, without regard to payment or receipt of cash. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over use of Federal funds.

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States, the Director of OMB, and the Joint Financial Management Improvement Program (JFMIP) established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountants Council designated FASAB as the accounting standards authority for Federal government entities.

The Financial Systems Integration Office (FSIO) within the General Services Administration, ceased operations in April 2010. The work products and source documents remain under the management of the OMB Office of Federal Financial Management and the Chief Financial Officers (CFO) Council, located on the web at www.cfoc.gov.

D. Revenues and Other Financing Sources

NEA receives funding through annual Congressional appropriations from the budget of the United States. No-year appropriations are used, within statutory limits, for operations and capital expenditures for essential personal property. Through the “American Recovery and Reinvestment Act of 2009,” the NEA was provided a one-time appropriation of \$50 million, to be used to preserve jobs in the arts.

Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

An Arts and Artifacts Indemnity Fund was established by Congress to address insurance issues that may arise in the course of national exhibits.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 1. Significant Accounting Policies (Continued):

D. Revenues and Other Financing Sources (Cont'd)

NEA was granted the authority to receive donations and to invest in interest-bearing accounts. Appropriate accounting guidelines are followed for both restricted and unrestricted funds.

NEA enters into Intragovernmental reimbursable agreements. The NEA's pricing policy on these exchange revenue transactions is based on mutually approved agreements, with no profits or losses.

E. Fund Balance with Treasury

Funds with the Department of the Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. Some donations carry restrictions as to the use of donated funds. See Note 2 for additional information.

F. Advances and Prepayments

NEA interagency agreements with other Federal agencies are recorded as advances in cases where funds are received prior to expenditure. As work is performed by NEA, expenditures are incurred and advances reduced. Advances are recorded for Intragovernmental Transactions until the expenditures or revenues are reported by the Trading Partner, at which time the advance is reduced and the expense/revenue is recognized.

Certain grantees receiving grant awards under the American Recovery and Reinvestment Act (ARRA) are paid in advance of expenditure with anticipation that cash disbursement will take place by the grantee within 30 days of their request. Amounts reported as advances are estimated based on expenditure reporting to NEA by grantees as of the balance sheet date.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 1. Significant Accounting Policies (Continued):

G. General Property, Plant and Equipment, Net

NEA policy is to depreciate property, plant and equipment over the estimated useful life of the asset using the straight-line method. NEA's capitalization threshold is \$50,000 for individual purchases and \$50,000 for bulk purchases with a minimum \$10,000 per item. Service lives are as shown below:

<u>Description</u>	<u>Life</u>
Leasehold Improvements	Term of Lease
Capital Leases	Term of Lease
Office Furniture	10 Years
Computer Equipment & Software	4 Years
Office Equipment	7 Years
Vehicles	8 Years

H. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by NEA as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation (or, in some cases, donated funds). Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities.

I. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies and trade accounts payable.

J. Accounts Receivable

NEA uses the specific identification method to recognize an allowance for uncollectible accounts receivable and related bad debt expenses.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 1. Significant Accounting Policies (Continued):

K. Annual, Sick and Other Leave

Annual leave and credit hours are accrued when earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates and balances. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

L. Retirement Plans

NEA employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 participate in CSRS unless they elected to join FERS and Social Security.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in FERS, a TSP account is automatically established and NEA makes a mandatory one percent contribution to this account. In addition, NEA makes matching contributions, ranging from one to four percent, for FERS-eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, NEA remits the employer's share of the required contribution.

NEA does not report on its financial statements information pertaining to the retirement plans covering its employees, except for imputed costs related to retirement (see M. below). Reporting amounts such as plan assets and accumulated plan benefits, if any, is the responsibility of the Office of Personnel Management.

M. Imputed Benefit Costs

NEA reports imputed benefit costs on Life Insurance, Health Insurance, and Retirement. The Office of Personnel Management (OPM) provides the cost factors that are applied to the Agency's records.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 1. Significant Accounting Policies (Continued):

N. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

O. Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

P. Earmarked Funds

Amounts reported as earmarked funds are represented by one appropriation, "Gifts and Donations" 59X8040, there are no eliminations of this type of activity within the agency, nor any need for additional subtotal or total columns.

Q. Fiduciary Activities

Various artists have loaned their artwork to the Endowment for display in certain agency offices. These artworks are not assets of the Federal Government. Fiduciary activities are not recognized in the proprietary financial statements, but are reported in the notes to the financial statements. See Note 18, Fiduciary Activities.

R. Change in Accounting Principle

In fiscal year 2012, the Endowment began operating under a new strategic plan. The latest plan established new goals and objectives that are separate from those established under the previous plan. As a result, NEA created three new programs that appear on the Statement of Net Cost - Arts Creation, Engagement with the Arts, and Contribution of the Arts. Prior to this fiscal year, allocation of administrative costs were based solely on the percentage of grant applications received for each major program. However, with the introduction of a new strategic plan with new major programs, an additional allocation

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 1. Significant Accounting Policies (Continued):

methodology was developed. With the new methodology adopted this fiscal year, costs related to servicing grants awarded under the prior strategic plan are allocated specifically to the goals under the previous strategic plan - Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts. Any remaining administrative costs are allocated to the new strategic plan programs on the basis of grant applications received for current fiscal year awards. In addition, the format of the Statement of Budgetary Resources as determined by the Department of Treasury changed in FY 2012 resulting in a new presentation this year.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 2: Fund Balance With Treasury

	September 30, 2012	September 30, 2011
Fund Balance:		
Trust Funds	\$ 2,505,426	\$ 1,535,232
Appropriated Funds	146,123,230	155,168,055
Fund Balance with Treasury – Subtotal	\$ 148,628,656	\$ 156,703,287
Invested in Public Debt Treasury Bills, net	-	841,149
Fund Balance With Treasury – Total	<u>\$ 148,628,656</u>	<u>\$ 157,544,436</u>
Status of Budgetary Resources:		
Unobligated Balance:		
Available Other	\$ 10,710,270	\$ 9,071,993
Available Trust Fund	2,200,628	2,050,152
Subtotal – Available	\$ 12,910,898	\$ 11,122,145
Unavailable	19,089	17,700
Obligated Balance not yet Disbursed Other	\$ 137,210,154	\$ 148,591,973
Obligated Balance not yet Disbursed Trust Fund	304,798	326,229
Subtotal - Obligated	137,514,952	148,918,202
Unfilled Orders – Reimbursable	(1,816,283)	(2,513,610)
	<u>\$ 148,628,656</u>	<u>\$ 157,544,436</u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 3: Investments

September 30, 2012*	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ -	Effective Interest	\$ -	\$ -	\$ -
Accrued Interest on Public Debt Bills	-				-
Total	<u>\$ -</u>				<u>\$ -</u>
September 30, 2011	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ 841,149	Effective Interest	\$ 1,357	\$ 842,506	\$ 842,506
Accrued Interest on Public Debt Bills	937				937
Total	<u>\$ 842,086</u>				<u>\$ 843,443</u>

*Due to low Treasury yields, investments that matured in fiscal year 2012 were not re-invested as of September 30, 2012. When yields increase, available funds will be reinvested.

The Federal Government does not set aside assets to pay for future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the NEA as evidence of its receipts. Treasury securities are an asset to the NEA and a liability to the U.S. Treasury. Because the NEA and the U.S. Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government.

Treasury securities provide the NEA with authority to draw upon the U.S. Treasury to make future expenditures. When the NEA requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 4: Accounts Receivable

	September 30, 2012	September 30, 2011
Gross Receivables:		
Custodial Receivables (Nonentity)	\$ 31,250	\$ 36,250
Receivables Due from Govt entities	-	525
Receivables Due from the Public	-	-
	<u>\$ 31,250</u>	<u>\$ 36,775</u>
Allowance for Uncollectibles:	-	-
Net Receivables	<u><u>\$ 31,250</u></u>	<u><u>\$ 36,775</u></u>

NOTE 5: General Property, Plant, And Equipment

Class of Property	September 30, 2012			September 30, 2011		
	Cost	Accumulated Depreciation	Book Value	Cost	Accumulated Depreciation	Book Value
Furniture & Equipment	\$ 205,675	\$ 9,794	\$ 195,881	\$ 132,845	\$ 132,845	\$ -
Total	<u><u>\$ 205,675</u></u>	<u><u>\$ 9,794</u></u>	<u><u>\$ 195,881</u></u>	<u><u>\$ 132,845</u></u>	<u><u>\$ 132,845</u></u>	<u><u>\$ -</u></u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 6: Other Assets

	September 30, 2012	September 30, 2011
Intragovernmental:		
Open World Leadership Center (1)	\$ 20,882	\$ 58,095
Department of Commerce (2)	334,000	667,500
Department of Transportation (3)	39,725	37,398
Institute of Museum and Library Services (4)	55,510	-
Total Intragovernmental	\$ 450,117	\$ 762,993
With the Public:		
Advance to Vendor for October Services (4)	\$ 2,750	\$ -
Total Other Assets	\$ 452,867	\$ 762,993

Other Information:

1. The Open World Program enables emerging leaders from Russia and other Eurasian countries to experience American democracy and civil society in action.
2. Advance provided to Census Bureau to provide statistics to the agency.
3. Advance provided to the Department of Transportation for the purchase of Metrocheks and accounting system hosting.
4. Advance to vendor for October services funded with FY 2012 dollars.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 7: Liabilities Not Covered By Budgetary Resources

	September 30, 2012	September 30, 2011
Intragovernmental:		
Unfunded FECA Liability	\$ 7,960	\$ 2,972
Custodial Liability	31,250	36,250
Total Intragovernmental	\$ 39,210	\$ 39,222
Accrued Unfunded Leave	\$ 1,349,813	\$ 1,470,149
Actuarial FECA Liability	17,673	10,628
Total Liabilities Not Covered by Budgetary Resources	\$ 1,406,696	\$ 1,519,999
Total Liabilities Covered by Budgetary Resources (Note 8)	\$ 50,713,578	\$ 47,595,362
Total Liabilities	\$ 52,120,274	\$ 49,115,361

Liabilities not covered by budgetary resources are financial responsibilities that do not yet have financial resources provided by Congress. Action from Congress is required before resources can be provided.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 8: Other Liabilities

	September 30, 2012			September 30, 2011		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental:						
Accrued Payables - Invoices	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Custodial Liability	-	31,250	31,250	-	36,250	36,250
Employer Contributions	-	222,813	222,813	-	219,854	219,854
Other Post Employment Benefits	-	-	-	-	603	603
Unfunded FECA Liability	-	7,960	7,960	-	2,972	2,972
Advances from Other Government Agencies	-	763,902	763,902		1,100,549	1,100,549
Total Intragovernmental Liabilities	\$ -	\$ 1,025,925	\$ 1,025,925	\$ -	\$ 1,360,228	\$ 1,360,228
With the Public:						
Accrued Payables - Invoices	\$ -	\$ 42,172	\$ 42,172	\$ -	\$ 202,449	\$ 202,449
Accrued Funded Payroll	-	908,291	908,291	-	1,001,830	1,001,830
TSP Employer Contributions	-	36,391	36,391	-	34,319	34,319
Actuarial FECA Liability	-	17,673	17,673	-	10,628	10,628
Accrued Unfunded Leave	-	1,349,814	1,349,814	-	1,470,149	1,470,149
Total Other Liabilities	\$ -	\$ 2,354,341	\$ 2,354,341	\$ -	\$ 2,719,375	\$ 2,719,375
Accrued Liabilities	-	48,740,008	48,740,008	-	45,035,758	45,035,758
Total Liabilities with the Public	\$ -	\$ 51,094,349	\$ 51,094,349	\$ -	\$ 47,755,133	\$ 47,755,133
Total Liabilities	<u>\$ -</u>	<u>\$ 52,120,274</u>	<u>\$ 52,120,274</u>	<u>\$ -</u>	<u>\$ 49,115,361</u>	<u>\$ 49,115,361</u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 9: Operating Leases

Brief Description of Occupancy Agreement:

The current annual occupancy agreement includes rental of the Old Post Office (OPO) building office space and one surface parking space with estimates for FY 2013. The agreement can be terminated upon four months' notice. The Agency's financial obligations for years beyond the current year do not mature until the later year(s) are reached. The obligation to pay rent in future years is subject to the availability of funds. During FY 2012, the OPO was declared as surplus property, requiring NEA to search for new space for FY 2014. NEA, working with GSA, has chosen to move to the Constitution Center. GSA anticipates the move occurring in January 2014, and is currently working with NEA to develop an occupancy agreement.

	FY 2011	FY 2012	FY 2013
Total Annual Rental	\$2,820,725	\$2,877,774	\$2,777,192

Brief Description of Copier Lease:

The NEA entered into a 60 month operating lease for copiers (NEA Copy Center & walkups throughout the Endowment) in September 2008, for rental services commencing October 1, 2008 thru September 30, 2013. The Agency's financial obligations for years beyond the current year do not mature until the later year(s) are reached. The obligation to pay these lease payments in future years is subject to the availability of funds.

FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
\$167,304	\$169,519	\$169,687	\$172,160	\$170,160

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 10: Commitments and Contingencies

The Arts Endowment is subject to a potential claim related to a class action lawsuit brought generally by former federal employees against more than fifty agencies of the United States government, including the Arts Endowment. No amounts have been accrued in the Arts Endowment financial statements because the amount of any judgment or settlement of the suit that might occur in the future cannot be reasonably determined.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 11: Earmarked Funds

Gifts and Donations

Balance Sheet	September 30, 2012	September 30, 2011
ASSETS		
Fund Balance with Treasury	\$ 2,505,426	\$ 1,535,232
Investments	-	842,086
Other Assets	55,510	-
Total Assets	<u>\$ 2,560,936</u>	<u>\$ 2,377,318</u>
LIABILITIES		
Accounts Payable	\$ -	\$ -
Accrued Expenses	59,464	5,762
Other Liabilities	-	1,160
Total Liabilities	<u>\$ 59,464</u>	<u>\$ 6,922</u>
NET POSITION		
Cumulative Results of Operations	<u>\$ 2,501,472</u>	<u>\$ 2,370,396</u>
Total Liabilities and Net Position	<u>\$ 2,560,936</u>	<u>\$ 2,377,318</u>
 Statement of Net Cost	 September 30, 2012	 September 30, 2011
Gross Program Costs	\$ 492,652	\$ 822,354
Less Earned Revenue	-	-
Net Cost of Operations	<u>\$ 492,652</u>	<u>\$ 822,354</u>
 Statement of Changes in Net Position	 September 30, 2012	 September 30, 2011
Net Position Beginning of Period	\$ 2,370,396	\$ 2,641,116
Non-Exchange Revenue	420	1,421
Cash Donations	623,308	550,214
Less: Net Cost of Operations	(492,652)	(822,354)
Change in Net Position	<u>\$ 131,076</u>	<u>\$ (270,719)</u>
Net Position End of Period	<u>\$ 2,501,472</u>	<u>\$ 2,370,396</u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 12: Intragovernmental Costs and Exchange Revenue

	FY 2012			FY 2011		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
Access to Artistic Excellence:						
Program Costs	\$ 445,758	\$ 37,049,388	\$ 37,495,146	\$ 4,731,128	\$ 87,679,837	\$ 92,410,965
Earned Revenue	(1,518,231)	-	(1,518,231)	(2,132,762)	-	(2,132,762)
Net Costs - Access to Artistic Excellence	\$ (1,072,473)	\$ 37,049,388	\$ 35,976,915	\$ 2,598,366	\$ 87,679,837	\$ 90,278,203
Learning in the Arts:						
Program Costs	\$ 13,445	\$ 9,898,840	\$ 9,912,285	\$ 935,874	\$ 19,303,401	\$ 20,239,275
Earned Revenue	(462,965)	-	(462,965)	(120,469)	-	(120,469)
Net Costs - Learning in the Arts	\$ (449,520)	\$ 9,898,840	\$ 9,449,320	\$ 815,405	\$ 19,303,401	\$ 20,118,806
Partnerships for the Arts:						
Program Costs	\$ 14,256	\$ 41,364,909	\$ 41,379,165	\$ 80,588	\$ 54,216,959	\$ 54,297,547
Earned Revenue	-	-	-	(1,346)	-	(1,346)
Net Costs - Partnerships for the Arts	\$ 14,256	\$ 41,364,909	\$ 41,379,165	\$ 79,242	\$ 54,216,959	\$ 54,296,201

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 12: Intragovernmental Costs and Exchange Revenue (continued)

	FY 2012			FY 2011		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
Arts Creation:						
Program Costs	\$ 2,153,081	\$ 16,580,957	\$ 18,734,038	\$ -	\$ -	\$ -
Earned Revenue	(26,950)	-	(26,950)	-	-	-
Net Costs - Arts Creation	\$ 2,126,131	\$ 16,580,957	\$ 18,707,088	\$ -	\$ -	\$ -
Engagement with the Arts:						
Program Costs	\$ 3,618,750	\$ 38,298,858	\$ 41,917,608	\$ -	\$ -	\$ -
Earned Revenue	(116,927)	-	(116,927)	-	-	-
Net Costs - Engagement with the Arts	\$ 3,501,823	\$ 38,298,858	\$ 41,800,681	\$ -	\$ -	\$ -
Contribution of the Arts:						
Program Costs	\$ 76,486	\$ 12,532,192	\$ 12,608,678	\$ -	\$ -	\$ -
Earned Revenue	(793)	-	(793)	-	-	-
Net Costs - Contribution of the Arts	\$ 75,693	\$ 12,532,192	\$ 12,607,885	\$ -	\$ -	\$ -
Total (including previous page):						
Program Costs	\$ 6,321,776	\$ 155,725,144	\$ 162,046,920	\$ 5,747,590	\$ 161,200,197	\$ 166,947,787
Earned Revenue	(2,125,866)	-	(2,125,866)	(2,254,577)	-	(2,254,577)
Net Cost of Operations	\$ 4,195,910	\$ 155,725,144	\$ 159,921,054	\$ 3,493,013	\$ 161,200,197	\$ 164,693,210

The Arts Endowment receives funds from other Federal agencies that participate in the Arts Endowment's program awards. The Arts Endowment may also incur intragovernmental costs for its participation in program awards or activities of other Federal agencies. NEA adopted a new strategic plan beginning in FY 2012 creating Arts Creation, Engagement with the Arts, and Contribution of the Arts programs. As a result, these programs had no activity in FY 2011 and prior years. Costs for grants issued in prior years are recorded to the Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts programs.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 13: Apportionment Categories of Obligations Incurred

The NEA is provided with funding only under Category B.

Category B	Direct	Reimbursable	Total
Apportionments	\$ 146,646,256	\$ 1,091,891	\$ 147,738,147
Obligations	\$ 146,085,833	\$ 1,164,058	\$ 147,249,891

NOTE 14: Undelivered Orders at the End of the Period

On the Statement of Budgetary Resources, the obligated balances, net, end of period includes the following:

Undelivered Orders:	2012	2011
Direct	\$ 86,732,758	\$ 101,234,667
Reimbursable	1,287,558	1,953,257
Undelivered Orders, net, end of period	\$ 88,020,316	\$ 103,187,924

NATIONAL ENDOWMENT FOR THE ARTS

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2012 and 2011

(In Dollars)

NOTE 15: Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the FY 2011 Statement of Budgetary Resources and the FY 2011 actual numbers presented in the FY 2012 Budget of the United States Government (Budget) are summarized below. All differences below are due to rounding multiple component lines of the Budget of the US Government to millions, compared to the NEA financial statements, which are presented in dollars.

The President's Fiscal Year 2014 Budget, which will include actual numbers for fiscal year 2012, has not yet been published. The FY 2014 Budget is expected to be published in February 2013 and to be available at <http://www.whitehouse.gov/omb/budget/>.

FY 2011 (in \$ millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$ 176	\$ 165	\$ 1	\$ 173
Difference (see above)	\$ 2	-	-	-
Budget of US Government	\$ 178	\$ 165	\$ 1	\$ 173

NOTE 16: Explanation of Differences Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Components that comprise liabilities not covered by budgetary resources represent the cumulative balance of the liability. By contrast, components requiring or generating resources in future periods included in Note 20 - Reconciliation of Net Cost of Operations to Budget represent the change in the liability created in the current year.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 17: Incidental Custodial Collections

	2012	2011
Proprietary Receipts from the Public	\$ -	\$ 70
Intrabudgetary Receipts Deducted by Agencies	5,000	3,750
	<hr/>	<hr/>
Total Custodial Collections	\$ 5,000	\$ 3,820

NOTE 18: Fiduciary Activities

The Endowment has several paintings on loan from various artists to be displayed in certain offices. These pieces are not assets of the Endowment, but they are managed and insured with the intent to return these pieces to the artists according to their respective loan agreements. The artworks are valued and insured at fair market value.

National Endowment for the Arts
Schedule of Fiduciary Activity
For the Years Ended September 30, 2012 and 2011

	September 30, 2012 Various Paintings	September 30, 2011 Various Paintings
Fiduciary net assets, beginning of year	\$ 94,000	\$ 7,000
Contributions	-	87,000
Disposition of assets, net	(5,500)	-
	<hr/>	<hr/>
Increase/(Decrease) in fiduciary net assets	(5,500)	87,000
	<hr/>	<hr/>
Fiduciary net assets, end of period	\$ 88,500	\$ 94,000
	<hr/> <hr/>	<hr/> <hr/>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2012 and 2011
(In Dollars)

NOTE 18: Fiduciary Activities (continued)

Fiduciary Net Assets
As of September 30, 2012 and 2011

	September 30, 2012	September 30, 2011
FIDUCIARY ASSETS		
Other Assets (various paintings)	\$ 88,500	\$ 94,000
FIDUCIARY LIABILITIES		
Less: Liabilities	-	-
Total Fiduciary net assets	<hr/> \$ 88,500 <hr/>	<hr/> \$ 94,000 <hr/>

Items included in the other assets line above consist of several paintings from various artists.

NOTE 19: Restatements

The Endowment's actuarial FECA liability was incorrectly reported as an intragovernmental liability in FY 2011 when it should have been included in liabilities with the public. The restatement of the Balance Sheet for FY 2011 reflects a \$10,628 reduction in intragovernmental liabilities and a \$10,628 increase in liabilities with the public. A corresponding adjustment is reflected in Notes 7 and 8. There is no overall impact to total liabilities.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 20: Reconciliation of Net Cost of Operations to Budget

	2012	2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 147,249,891	\$ 165,240,151
Less: Spending Authority from offsetting collections and recoveries	(2,394,377)	(7,495,427)
Obligations net of offsetting collections and recoveries	\$ 144,855,514	\$ 157,744,724
Less: Offsetting receipts	(627,004)	(554,034)
Net Obligations	\$ 144,228,510	\$ 157,190,690
Other Resources		
Imputed financing from costs absorbed by others	\$ 1,234,934	\$ 1,643,947
Other Resources	-	-
Net Other Resources Used to Finance Activities	\$ 1,234,934	\$ 1,643,947
Total Resources Used to Finance Activities	\$ 145,463,444	\$ 158,834,637
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services and Benefits Ordered but not received	\$ 14,133,634	\$ 5,221,872
Resources that fund expenses recognized in prior periods	(120,337)	-
Budgetary offsetting collections and receipts that do not affect net cost of operations	627,004	554,034
Resources that Finance the Acquisition of Assets	(205,675)	-
Other Resources or adjustments to net obligated resources that do not affect net cost of operations	-	-
Total Resources used to finance items not part of the Net Cost of Operations	\$ 14,434,626	\$ 5,775,906
Total Resources Used to finance the Net Cost of Operations	\$ 159,898,070	\$ 164,610,543
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring/Generating Resources in Future Periods (Note 16):		
Increase in Annual Leave Liability	\$ -	\$ 72,314
Other – Change in FECA Liability	7,045	7,712
Total components of Net Cost of Operations that will require or generate resources in future periods	\$ 7,045	\$ 80,026
Components not Requiring or Generating Resources:		
Depreciation and Amortization	\$ 9,794	\$ -
Other not Requiring Outlay of Resources	6,145	2,641
Total components of Net Cost of Operations that will not require or generate resources	\$ 15,939	\$ 2,641
Total components of net cost of operations that will not require or generate resources in the current period	\$ 22,984	\$ 82,667
Net Cost of Operations	\$ 159,921,054	\$ 164,693,210

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 21: Donations In-Kind

During FY 2012, NEA received in-kind gifts from several organizations. Gifts included payment of NEA staff travel, lodging, and meals, as well as payment of NEA staff registration fees to attend and/or participate in various arts-related functions. The total value of these in-kind donations was \$51,910 in FY 2012 and \$16,841 in FY 2011.



MEMORANDUM

Memo 13-01

DATE: October 31, 2012

TO: Rocco Landesman, Chairman

FROM: Tonie Jones, Inspector General

A handwritten signature in blue ink, appearing to read "Jones", is placed next to the name "Tonie Jones" in the "FROM:" field.

SUBJECT: Top Management Challenges for the National Endowment for the Arts

The National Endowment for the Arts (NEA) is required to submit a Performance and Accountability Report (PAR) to the Office of Management and Budget (OMB) in November 2012. The PAR contains a number of sections that address issues ranging from performance to financial management. OMB Circular A-136, *Financial Reporting Requirements*, requires that the Inspector General provide the agency head with a summary of the top management and performance challenges facing the agency.

After careful analysis, it is our assessment that the areas of Financial Management, Human Capital, Information Technology, and Grantee Accountability represent the top management and performance challenges for the National Endowment for the Arts. The rationale for our perspective on each is outlined below.

The Office of Inspector General (OIG) has strong support from NEA management and looks forward to working with you as we address matters of mutual interest. We also welcome any comments on our assessment.

Financial Management. Since October 2004, the NEA has contracted with the Department of Transportation's Enterprise Services Center (DOT-ESC) to provide NEA with its first Office of Federal Financial Management compliant system.

In FY 2012, NEA continued to use the automated process developed in FY 2009 to create the agency's financial statements. Data is entered into the trial balance and that data is automatically mapped to each statement, as applicable. Integrity data checks were built in to identify any incorrect or missing data, and the cost accounting methodology was improved to report on expenses by goal. In response to the agency's new strategic plan, modifications were made in the automated process that addressed the expense distribution methodology.

NEA was appropriated an additional \$50 million through the American Recovery and Reinvestment Act of 2009 (ARRA). The agency successfully created ARRA programs, processed applications, awarded grants and obligated 100 percent of its ARRA funds by

the required September 30, 2010 deadline. In addition, 100 percent of its net awarded ARRA funds have been disbursed. As of September 30, 2012, there have been some additional decreases in awards attributable to grantees unable to use part or all of their award funds, resulting in a cumulative total of \$19,088.66 that will be returned to the General Fund. NEA continues to collaborate with other agencies supported by DOT-ESC in anticipation of the Federalized Version of Oracle 12i. The main emphasis in FY 2013 is the global vendor cleanup efforts that will allow a better transition to the new version.

Human Capital. Maintaining the right combination of technical knowledge and subject matter expertise continues to be essential to NEA achieving its mission. During FY 2013, the agency will be challenged with replacing key long-standing officials. Primarily, the Deputy Chairman for Management & Budget position, which represents a major component of the agency and nearly one-third of the agency work-force. Other key positions becoming vacant due to upcoming retirements and attrition must also be filled. Filling these positions may be further challenged by a possible climate of Presidential transition.

The agency will be relocating to another building during FY 2014, so we anticipate major aspects of the move having human capital implications in addition to working with the NEA bargaining unit to ensure a smooth move. The Office of Human Resources will also be researching the possible implementation of an automated Performance Management System for GS employees in FY 2013.

Information Technology (IT). While the Federal Chief Information Officer's "25-Point Implementation Plan to Reform Federal Information Technology Management" does not apply directly to small agencies, NEA has already adopted a number of its mandates. These include the use of shared services and a "cloud first" policy for new systems.

NEA has made significant strides with shared services. The agency's finance, electronic official personnel files (eOPF), and time and attendance systems are all sourced through larger Federal agencies. The Transportation Department's Enterprise Services Center provides NEA with the use of DELPHI, an Oracle Federal financial system. The Office of Personnel Management provides the e-OPF system (Official Personnel File) and the US Department of Agriculture provides the National Finance Center's electronic time and attendance system (webTA). These shared service arrangements have proven to be both cost-effective and responsive to NEA's needs.

Following a pilot project in 2011, NEA is extending its use of its GrantsOnline™ system (NEA-GO), a cloud-based electronic application review system. Developed and provided through an agreement with the Western States Arts Federation (WESTAF), this system enables NEA applicants to upload their application work samples electronically. Work samples such as music and image files are paired with the materials that applicants submit via Grants.gov. NEA piloted the use of NEA-GO over three panels within the Presenting Arts discipline. Given the success of the pilot program, in the spring of 2012, NEA instituted the use of NEA-GO to review of all grant applications for the *Art Works* and the *Challenge America Fast-Track* grant programs. Panelists have the ability to

review, comment on, and score all of the application materials online in advance of the Panel meeting in Washington. The use of this new technology is having a substantial impact on NEA's panel review processes as additional grant programs transition to the NEA-GO system.

NEA's top information technology management challenge continues to be the need to transition to a new, more robust grants management system (GMS). This need is being addressed through an OMB-approved partnership with the National Endowment for the Humanities (NEH) to jointly develop a new shared system. Work on this cloud-based system has begun, with the first module completed in September 2012. The new GMS, built on a more flexible, operationally efficient platform, will be fully integrated with NEA business processes and seamlessly connected to both Grants.gov and the DELPHI financial system. NEA expects to transition to the system in FY 2015.

New government-wide requirements for information security in recent years provide challenges to all federal agencies, including the NEA. The *Federal Information Security Management Act of 2002* (FISMA) requires each Federal agency to develop, document, and implement an agency-wide information security program to provide information security over the operations and assets of the agency. As noted in the OIG's evaluations of information security during the past few years, the NEA has made significant progress to comply with these requirements despite limited resources to devote to this effort.

Privacy reporting has been included as part of the FISMA reporting process in light of the occurrence of data theft and losses at several Federal agencies. The E-Government Act and Privacy Act provide legislative guidance for the control and dissemination of personal information and personally identifiable information. While NEA complies with these laws and has revised its privacy policy to improve guidance and control, this will continue to be an area requiring attention.

Grantee Accountability. As the nation's largest public funding provider for the arts, NEA awards thousands of grants and cooperative agreements annually. This year, NEA has issued nearly 2,300 awards. The supported organizations vary considerably in size and financial management experience, particularly as they relate to Federal financial management requirements. The continuing challenge, facing each Federal grant-making agency, is to ensure that recipients adhere to and comply with the applicable fiscal requirements.

To assist grantees in these efforts, the NEA provides the *General Terms and Conditions for Grants and Cooperative Agreements to Organizations* (*General Terms*), the *OIG Financial Management Guide for Non-Profit Organizations* (*Financial Management Guide*) and other guidance documents via the agency's website. The *General Terms* incorporate OMB requirements, Federal laws, rules, regulations, and Executive Orders that apply to grants and cooperative agreements. The *Financial Management Guide* provides practical information on what is expected from grantee organizations in terms of fiscal responsibility. The NEA enhances its communication with grantees through a Web-based program that provides all grantees with general information on the status of

their grant – including amount awarded, grant period, amount disbursed, and the required final report submission. The NEA’s Grants and Contracts Office also provides considerable technical assistance via telephone and email.

There continues to be a limited number of grantees that have not complied with all applicable federal grant requirements. These organizations are typically identified by the NEA’s Grants and Contracts Office and referred to the OIG for audit or review. Upon evaluating these organizations, the OIG has identified these five most common findings: (1) not accounting for costs separately by grant award; (2) not reporting actual costs incurred on the final Federal Financial Report (FFR); (3) not maintaining personnel activity reports (time sheets) prorating the actual time charged to NEA grants; (4) not maintaining a Section 504 self-evaluation at the organization and (5) not ensuring that contractors and recipients are not debarred or suspended from receiving Federal funds prior to the payment or award of Federal funds.

This year ARRA work was completed. All final Quarterly and Financial reports were received and approved by the agency and any unused funds will be returned to the Treasury as previously noted. A summary of all NEA ARRA activity was prepared and shared with senior agency staff. The agency has and may continue to deobligate ARRA funds as a result of future audit findings by the OIG that identifies unallowable costs charged to Recovery Act awards.

New OMB-approved final descriptive reports (FDR), developed to obtain information related to our strategic plan, were implemented with the agency's FY 12 awards. In addition, the final report material (FDR and FFR) are submitted to a dedicated Final Reports email box where the data is uploaded into a database. This allows the 3-person final reports team to review narrative, financial, and other detailed data concurrently to better assess grantee compliance. The final reports team will meet with the Office of Research & Analysis in early FY 13 to propose new tips and technical guidance for grantees to encourage greater understanding and accountability, which will be provided on the NEA Web site.

We acknowledge and encourage NEA’s efforts to continue identifying opportunities to improve grantee compliance with government-wide grant requirements. Continued development and implementation of web-based tools and technical assistance efforts will, in our opinion, improve the likelihood of grantee compliance.

cc: Joan Shigekawa, Senior Deputy Chairman
Jamie Bennett, Chief of Staff
Mike Burke, Chief Information Officer
Nicki Jacobs, Grants and Contracts Director
[Marisa E. Marinos](#), Civil Rights/EEO Director
Craig McCord, Human Resources Director
Ned Read, Special Assistant, Deputy Chairman for Management and Budget
Sandy Stueckler, Finance Director
Monica Waters, Auditor



MEMORANDUM FROM THE CHAIRMAN

A handwritten signature in black ink, likely belonging to the Chairman, is positioned to the right of the title.

DATE: November 1, 2012

TO: Tonie Jones, Inspector General

SUBJECT: Response to OIG Memorandum Concerning Top Management Challenges

The National Endowment for the Arts continues to benefit from a strong and positive working relationship with the Office of Inspector General (OIG). We appreciate the leadership and communication of the Inspector General and concur with the observations made in your October 31, 2012 memorandum entitled "Top Management Challenges for the National Endowment for the Arts."

In particular, we appreciate your acknowledgement of the continuing progress and improvements made by the NEA in the areas of Financial Management, Human Capital, Information Technology, and Grantee Accountability.

During the past year, the NEA has continued to strengthen its internal operations. As you noted, members of our Finance staff have been participating in an inter-agency working group that seeks to enhance the Delphi finance system that we utilize through an agreement with the Department of Transportation (DOT), with a particular focus on preparing for DOT's eventual transition to Oracle's version 12i.

This past year we also implemented a significant improvement in the Human Resources area by introducing the National Finance Center's webTA system, which enhances accountability and efficiency of our time and attendance procedures. In addition, we laid the foundations for the introduction in FY 2013 of a new online training system and an automated employee performance management system. All of these changes promise long-term efficiencies and financial benefits for the Agency.

Further, implementation of our strategic partnership with the National Endowment for the Humanities to transition to a new Cloud-based grants management system is moving along on schedule and within budget. This new eGMS will result in greater efficiencies in our application and grant processing, improved accountability, and improved customer service. We are also proud that, despite limited resources, we are meeting the challenges of government-wide requirements for information security. This is a task that never really ends, of course, and the Agency is fully committed to staying on course to ensure the security of our information systems and the privacy of the information contained in them.

On the relocation front, we will be collaborating with GSA and NEH throughout FY 2013 to ensure that we are well prepared for our expected move in FY 2014.

In our grants management operations, we have continued to identify and act on opportunities to improve the experience of the applicants and grantees who do business with us, and have – through creative use of technology – enhanced the efficiency of our grants final report review

process. And, as you noted, during FY 2012 we completed our Recovery Act work, among the first agencies to do so.

Finally, I would like to point out the great strides we have made in the areas of transparency and accountability. We continue to improve our website, making it more user-friendly and continually adding new features and information to serve the American people. During FY 2013 we will be undertaking a complete overhaul of the site, making it even more accessible and functional.

We appreciate the OIG's recognition of the progress the Agency has made during the past year and look forward to working with you on these and other matters of mutual concern in the coming year.